Pantry Pride

Pantry Pride, Inc.

Pantry Pride

1984

Pantry Pride

Annual Report

Pantry Pride

Our Business

At fiscal year end, the Company operated through its subsidiary, Pantry Pride Enterprises, Inc., a chain of [illegible] Pantry Pride supermarkets in Florida, Georgia, Virginia and the Bahamas; through its subsidiary, Sun Supermarkets, Inc., a chain of 8 Sun Supermarkets in Florida; through its newly acquired subsidiary, Devon Stores, Inc., a national chain of 71 specialty retail stores in 22 states servicing merchandise primarily to military personnel on credit.

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Pantry Pride, Inc.

ANNUAL REPORT SUPPLEMENT
RECENT DEVELOPMENTS
November, 1984

TO OUR SHAREHOLDERS:

We are pleased to enclose Pantry Pride's 1984 Annual Report. Since the end of the fiscal year, we have taken major steps in our continuing efforts to achieve substantial growth and greater profitability for the Company and our shareholders. We are therefore, taking this opportunity to update you on these recent developments.

AGREEMENT TO ACQUIRE ADAMS DRUG CO., INC.

In keeping with our announced program of continuing to seek acquisitions which will generate earnings, the Company recently entered into an agreement to acquire Adams Drug Co., Inc. by means of a tender offer and agreement with the controlling shareholders of Adams.

This chain of 419 drug and health-and-beauty-aid stores in 10 states from Maine to Maryland, had 1983 sales of $302 million and pre-tax FIFO earnings of $16 million. Over the past five years, Adams has averaged sales increases of 15% and profit increases of more than 30%. We propose to pay approximately $100 million for Adams, and expect to complete the transaction within a few weeks.

SALE OF VIRGINIA SUPERMARKETS

Responding to an unusual opportunity to sell our 20 supermarkets as an ongoing business in Virginia, we elected in October to redeploy our investment in that region. By taking this action, we avoided the necessity to invest substantial capital in stores which would have required a major effort merely to remain competitive. In this manner, we are able to use the funds derived in ways which will achieve a better and more immediate return on investment.

The Company now operates 80 supermarkets in Florida, Georgia and the Bahamas. In the past twelve months, the Company has closed or sold 76 conventional supermarkets and opened 8 Sun Supermarkets. Our goal is to operate a supermarket chain with fewer but better, in fact, superior stores which, through increased volume and efficiency, are capable of generating a greater return on investment.

DEVON STORES, INC.

On May 24, 1984, Devon became a part of the Pantry Pride family. At fiscal year end, our Annual Report shows 71 stores in operation in 22 states. To affirm our commitment to continue the growth of that company which, in fiscal '84 achieved sales and earnings increases of more than 50%, and which generated $10 million of pre-tax earnings, we wish to report that as of this date, Devon has 91 stores in operation in 29 states.

6500 North Andrews Avenue, Ft. Lauderdale, Florida 33309 (305) 771-8300

ACQUISITION AND GROWTH

Pantry Pride's business is expanding and rapidly broadening its areas of activity. In the short period of one year, we have evolved from a Company which was exclusively engaged in supermarket operations to a Company which can be described as a diversified retailer.

In the last two fiscal years, our net worth has increased from $22.4 million to $138.7 million. Our supermarket operations have been completely restructured. We have acquired Devon Stores and we are moving to acquire Adams Drug. The willingness and ability of Pantry Pride's management, with the support of the Board of Directors, to take aggressive action was, we believe, of paramount importance to the banking institutions financing our acquisition of Adams Drug. The support of our banks could not have been obtained without solid evidence of our management's ability to transform our Company from a mere survivor of Chapter XI to a strong and dynamic enterprise.

The Company will continue to seek acquisitions in order to increase its asset base, sales and, most importantly, earnings. We have emphasized the pre-tax earnings of our operations because of the enormous losses incurred in our Chapter XI proceedings which have resulted in large tax loss carryforwards, and which are available to offset future earnings. We consider the utilization and protection of the availability of these tax loss carryforwards to be an important element of our corporate strategy. We will, therefore, continue to pursue policies which will add to earnings through additional acquisitions and continue to focus on the expansion of sales and earnings in our existing operations.

Your management is very proud of these developments. We have come a long way since the dark years of Chapter XI. Through imaginative and innovative management action and redeployment of our assets, we have created a diversified business structure which should generate sales and earnings far greater than could have been imagined in the past.

Roger L. Galassini

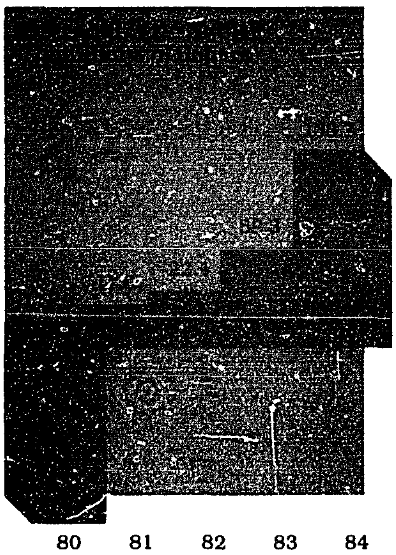
ROGER L. GALASSINI
President and Chief Operating Officer

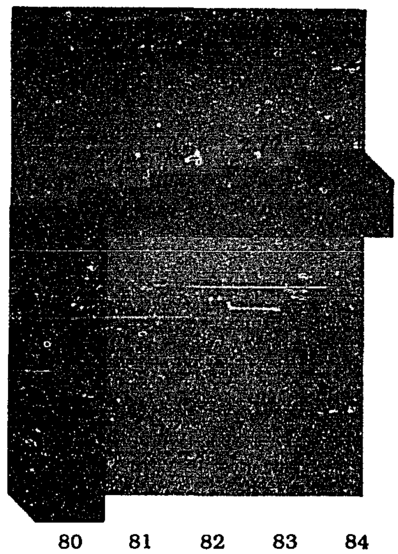
G C Gentry

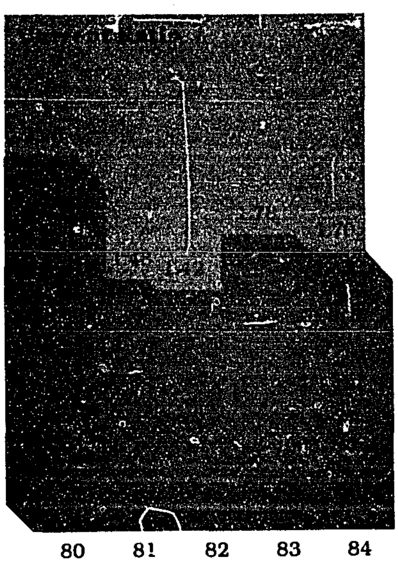
GRANT C. GENTRY
Chairman and Chief Executive Officer

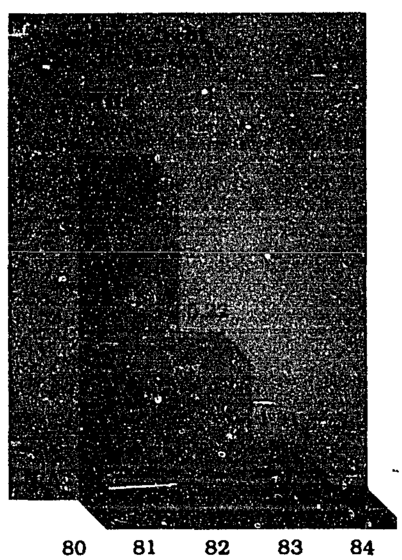
Financial Highlights

(dollars in thousands except per share data)	**52 Weeks Ended July 28, 1984**	52 Weeks Ended July 30, 1983	52 Weeks Ended July 31, 1982
Sales	**$770,411**	$941,635	$930,163
Earnings before provision for income taxes	**7,380**	17,353	20,448
Net earnings	**9,928**	13,540	15,489
Earnings per share			
Common and common equivalent share	**.36**	.63	1.01
Common share — fully diluted	**.36**	.62	.78
Total assets	**266,109**	244,081	225,674
Working capital	**51,565**	60,603	35,004
Current ratio	**1.70 to 1**	1.78 to 1	1.42 to 1
Stockholders' equity	**138,686**	58,287	22,353
Long-term debt to equity ratio	**.38**	1.81	5.22
Book value per share	**3.67**	2.72	2.23









*N/A-Not applicable due to deficit in shareholders' equity

PERFORMANCE REVIEW OF 1984

Fiscal '84 was a challenging, exciting and dynamic year—a year in which we continued to redirect and revitalize the Pantry Pride of the future.

It was a year in which we diversified our retailing operations through the acquisition of the highly-profitable and growth oriented Devon Stores Corporation.

It was a year in which our new strategy of supermarket merchandising was apparent with the opening of our first Sun Supermarkets and the scheduled debut of the first CUB supermarket early in 1985.

It was a year, too, in which we took a series of measures to strengthen our financial resources.

And it was a year in which we continued to operate profitably, despite the heavy costs attributable to the start up expenses of our Sun stores and the closing of 56 outmoded and unprofitable Pantry Pride units which were no longer able to compete in our Florida market. Notwithstanding, 1984 fiscal year net income of $9.9 million exceeded budgeted projections, even though trailing last year's results. Sales of $770.4 million compared with $941.6 million in fiscal '83 largely reflected the closing of obsolete stores.

With this overview, let us share with you in more detail the actions your management has taken to strengthen the Company, and then comment on our plans for fiscal '85.

In assessing our on-going conventional supermarket operations, we faced the prospect of slow erosion of our market position, sales and profitability unless decisive steps were taken promptly. The Company's financial difficulties leading up to and immediately following the Chapter XI filing had left a legacy of many small stores which were becoming increasingly obsolete compared with those newer stores of our major competitors, and a lack of resources to undertake the capital expansion required to maintain competitive parity.

To attack the problem required a substantial overhaul of the Company's financial structure to assure funds for future growth. This effort began with overwhelming shareholder approval of a recapitalization plan in fiscal year 1983 in which former creditors of the Company exchanged classes of preferred stock for cash and common stock. That approval wiped out $160 million of debt and $60 million of preferred stock dividend obligations the Company would have been required to pay out over a 16-year period beginning in 1985. It also lifted restrictive covenants that would have severely limited our options for future growth.

With this burden removed, we were able to successfully market $42.5 million of convertible debentures in May '83. In fiscal '84, debenture holders converted $41.3 million of their holdings into common stock at a conversion rate of $5 per common share.

Elimination of most of our debt through recapitalization and the infusion of additional funds through the debenture sale provided us with the strong financial base to activate the growth strategies we had formulated, thus permitting (1) the revitalization of our supermarket operations and (2) diversification through acquisition.

Integral to the implementation of the first phase of that strategy was the completion of a working agreement with Super Valu Stores, Inc., the nation's largest retail-support wholesale grocer. Under one part of the agreement, Super Valu has purchased our major distribution centers in Miami and Jacksonville, including inventory, equipment and truck fleets, in exchange for their supplying our stores with groceries. These sales provided us with additional funds to strengthen our retail operations.

STORE DEVELOPMENT CUB/SUN

The agreement with Super Valu also gave Pantry Pride the exclusive franchise to the CUB store concept in a majority of our operating areas in Florida. The typical CUB store is a giant 65,000 to 80,000 square-foot warehouse-type super-supermarket built for high volume with emphasis on low prices, quality perishables and extensive variety and selection. Two CUB stores are scheduled to open in south Florida early in 1985.

To complement the CUB stores, we began to open early this year, a scaled-down version: the Sun Supermarket. Consumer response to the six Sun Supermarkets opened to date has been excellent.

As we set our Sun-CUB plans in motion, 56 outmoded Pantry Pride stores were closed. Presently, two of these units have been reopened under the Sun banner and have achieved sales increases of 200% and more over those previously recorded. The Company also acquired five closed stores from the Grand Union Company when they terminated operations in south Florida, all which have been reopened as Sun Supermarkets, again ringing up impressive sales gains over those generated by the former ownership. Currently, the Company operates eight Sun Supermarkets in Florida, including one newly constructed Sun in Jacksonville, Florida.

We believe that the Sun-CUB marketing strategy of high volume, low prices, quality products in a no-frills, efficiently operated supermarket positions us to vigorously compete with other food retailers and withstand competitive pressures.

DEVON ACQUISITION: A TURNING POINT

Progress was also made in the second phase of our growth strategy—diversification through acquisition—with shareholder approval in May of the purchase of Devon Stores, operator of more than 75 retail stores selling appliances, video equipment, furniture and related items on credit to military personnel. Started in 1980, Devon's earnings have increased annually by more than 50% over the last three years, with pre-tax earnings in 1984 of $10 million and sales of $50 million.

The acquisition, accomplished through the exchange of Devon common shares for approximately 7.8 million shares of Pantry Pride common stock and $41 million in cash, gives us entry into a business which is less capital intensive and has historically generated profit margins substantially higher and more immediate than are available in the supermarket business. In addition, our net operating loss carryforwards of some $339 million can be used to shelter Devon's earnings from federal income tax. Further, Pantry Pride's retail oriented management and electronic data processing resources can now be utilized by Devon to facilitate its expansion program and to achieve substantial operating efficiencies.

In summary, your management has in the last year significantly strengthened its capital structure through redeployment of assets, successfully launched a marketing change in its supermarket operations with its Sun Supermarkets, prepared the groundwork for the opening early in 1985 of its first two CUB super-supermarkets and taken the initial step in its diversification program through the acquisition of the growth oriented and profitable Devon Stores.

FUTURE DEVELOPMENTS & ACQUISITIONS

In fiscal '85, we will continue to expand our Sun Supermarkets, further develop the CUB stores and seek additional acquisitions of profitable retail-related enterprises which can benefit from Pantry Pride's management and financial resources and whose earnings can accelerate the use of our net operating loss carryforward.

With a sound financial base, the availability of $339 million of net operating loss carryforwards to shelter future earnings and unused credit lines sufficient for anticipated needs, Pantry Pride is well-positioned for future sales and earnings growth.

As previously announced, the costs related to the opening of the CUB stores and the acceleration of the opening of Sun Supermarkets, coupled with the closing of additional physically-obsolete Pantry Pride units, will impact supermarket operations in the short run. However, your management believes that the beneficial results of our efforts will be reflected in the ensuing years.

With the continued support of our shareholders, the guidance and encouragement of our Board of Directors and the renewed sense of pride and dedication of our employee-family, we are confident of success.

Grant C. Gentry
Chairman and
Chief Executive Officer

Roger L. Galassini
President and
Chief Operating Officer

"As a result of recent consolidation of operations and diversification, as well as our acquisition program, we believe that Pantry Pride is now positioned for growth and development. Management's commitment to meet the challenges involved in operating a solid company with a new vitality is stronger now than ever before."

Roger L. Galassini, President and Chief Operating Officer — *Grant C. Gentry, Chairman and Chief Executive Officer*

"There is something very special about Pantry Pride. In my busy life I find it convenient and economical to shop here...I don't have to compromise service and quality for savings."

PANTRY PRIDE SUPERMARKETS

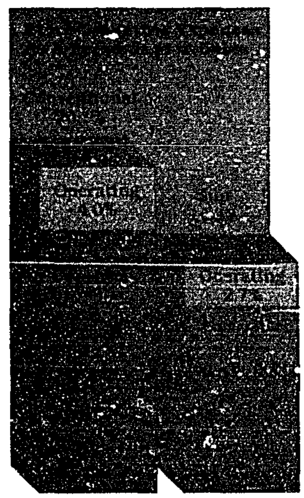
In fiscal '84, Pantry Pride supermarkets sales and earnings were adversely impacted by the closing of 56 outmoded stores, an increase in the number of new store openings and remodelings by competitors, and a heightened level of competition. Most severely affected was the Jacksonville Region where operating earnings declined significantly primarily as the result of slackened sales.

At fiscal year end, the Company operated 94 Pantry Pride supermarkets, 70 of which were in Florida, 4 in Georgia, 19 in Virginia and one in the Bahamas.

The Company continues its evaluation of Pantry Pride supermarkets to more sharply define the role these conventional stores will play as a complement to the emerging Sun-CUB marketing strategy.

SUN SUPERMARKETS

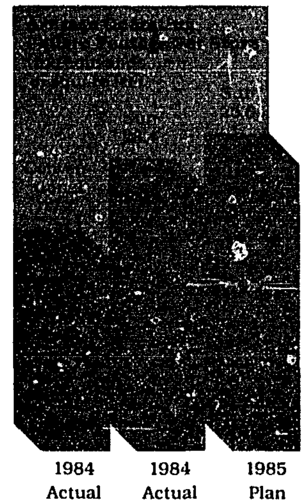
A major step was taken in the Company's supermarket revitalization program with the successful debut of our Sun Supermarkets in south Florida. The six units opened in fiscal '84 reflect our new marketing strategy of low prices and high volume, in a functional, efficiently-operated store which offers quality and variety. Consumer response to Sun Supermarkets has been excellent.



1985 Plan 1985 Plan

In a word, Sun offers the widest selection of items found in conventional supermarkets... at lower prices. Several of the stores include fresh meat and seafood departments with counter personnel to customize orders. Pharmacies offering competitive prices for prescriptions and other drug items provide another welcomed service at several of these stores.

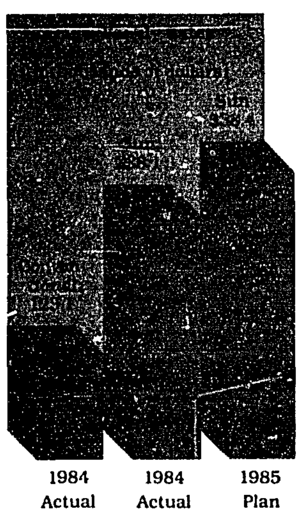
The key to Sun's success is rigidly-controlled operating costs that permit pricing at gross profit margins below those of conventional supermarkets.



Control of wage costs is particularly critical in the labor-intensive retail food business. In this regard, we have been successful in working out with our unions wages and benefits for our Sun employees that are equitable and more commensurate with those provided by non-organized competitors in south Florida.

Additional costs savings are derived from elimination of item pricing, more efficient systems for ordering, stocking and displaying groceries and the use of automated scanning systems for speedy, accurate checkout with shoppers bagging their orders.

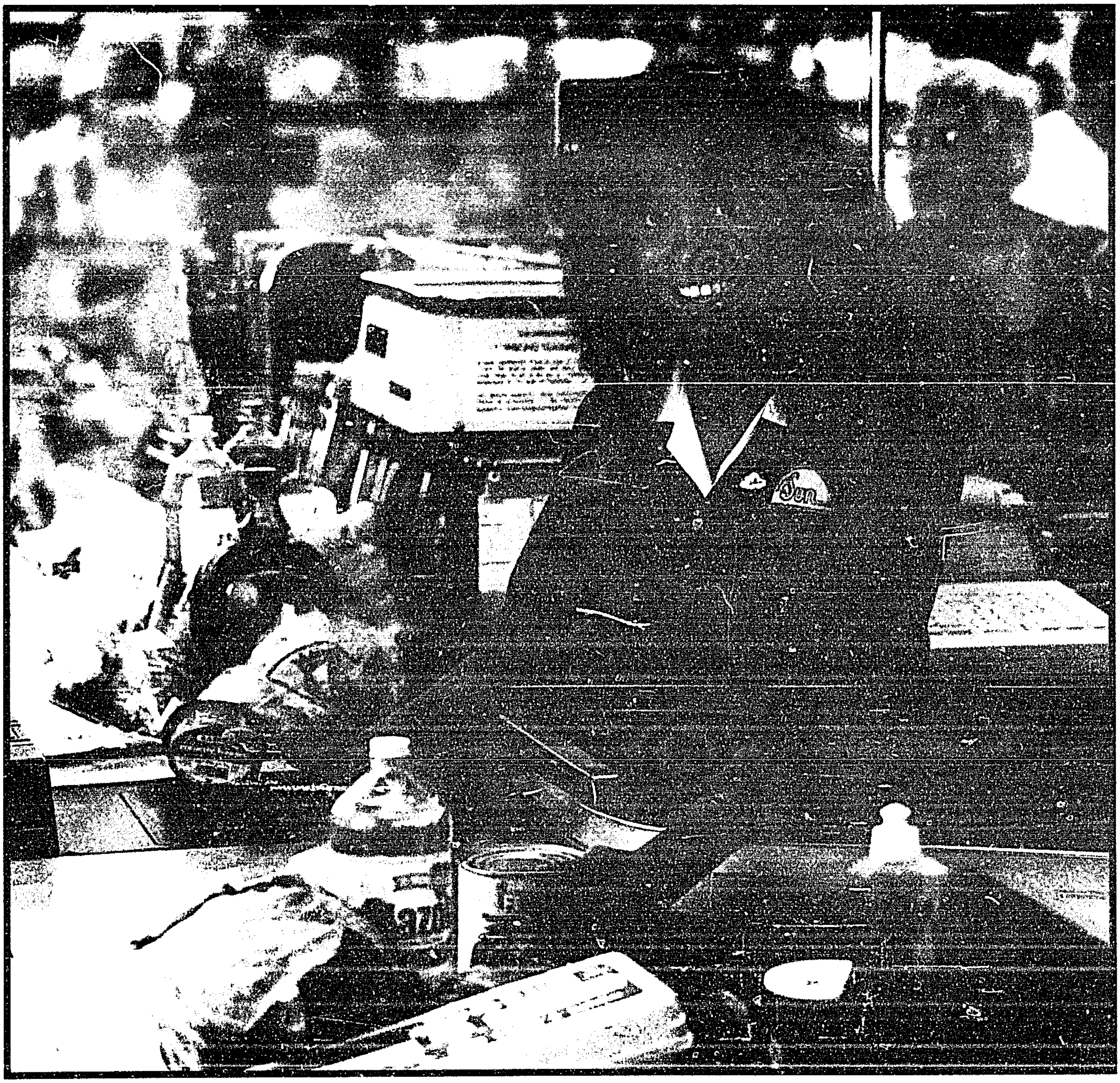
Substantial company attention through lobbying efforts was directed toward amending certain south Florida municipal and county ordinances governing mandatory item pricing for our Sun Supermarkets. As a result, we are proud to be the only supermarket chain in south Florida to have successfully obtained legislative approval for our pricing program, which allows us to remove individual prices from items in our Suns equipped with electronic scanners.

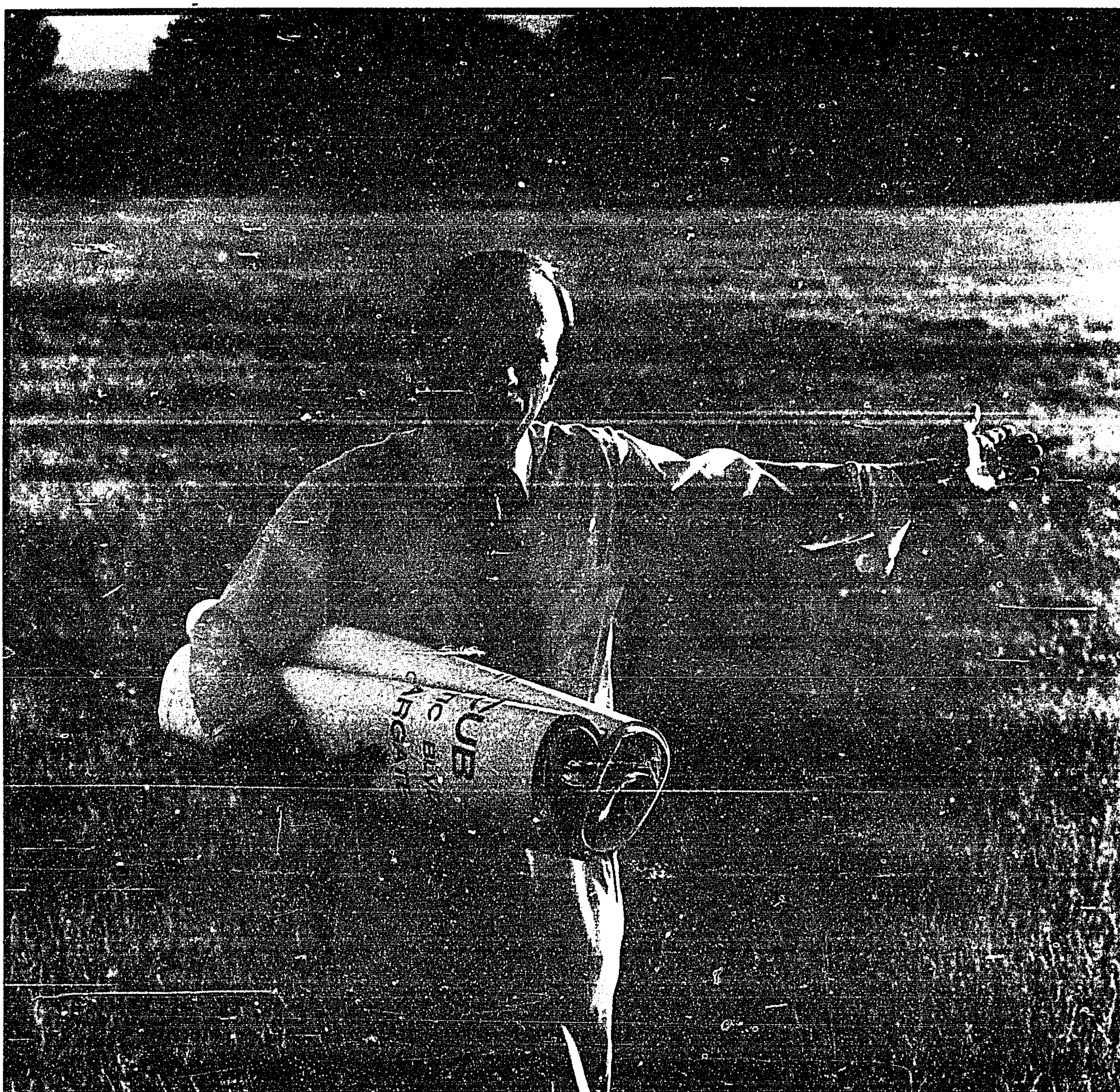


Coupled with our larger shelf labels and a pricing accuracy guarantee policy, the elimination of pricing lowered our labor costs and, in turn, lowered food costs substantially for our customers.

The indoctrination, training and motivation of Sun employees has also been recognized. Friendliness, courtesy and service are stressed in carrying out Sun's credo: "Each Sun is the friendliest, best-operated and lowest-priced in its market."

"Sun Supermarkets recognizes the value of its employees through quality training and career development programs. I like to work here... I feel like an important part of the team."

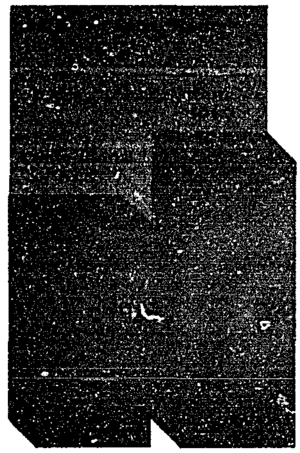




"Here is where CUB begins... a new and exciting shopping concept to south Florida, where variety and value will be unmatched."

Strong emphasis has been placed upon the integration of a human resources program into our store operations program. Considerable attention has been given to implementing specific programs tailored to improve or recognize the quality of the skills of store personnel, including:

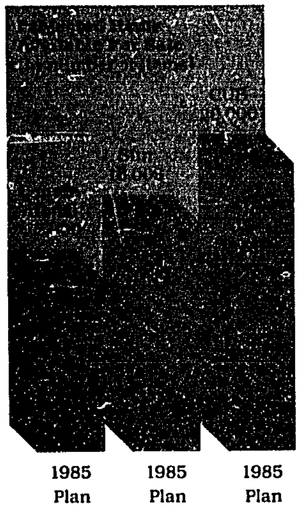
- Developing and implementing an internal management audit program to evaluate existing manager skills and develop potential managers.
- Designing and conducting a pilot career development center.
- Conducting exceptional management practices programs to improve the management skills of experienced supermarket managers.
- Developing and implementing a store climate survey program to identify personnel concerns and improve organizational performance.
- Designing and conducting corporate and field planning sessions to identify supermarket goals and objectives.



In fiscal '85, the Company plans to have open 13 Sun Supermarkets and extend its operations to the Jacksonville Region. Some Suns will be conversions of Pantry Pride stores while others will be newly-constructed facilities ranging from 38,000-50,000 square feet.

CUB STORES

Coincident with the opening of Sun Supermarkets, developmental plans continued looking to the opening of the Company's first CUB Stores early in 1985. Two 73,000 square-foot CUB Stores are under construction in the south Florida communities of Davie and Margate.



The Company has been granted exclusive franchise rights to CUB in the majority of our operating areas in Florida by Super Valu Foods which introduced the first CUB Stores in the mid-west to unprecedented consumer acceptance.

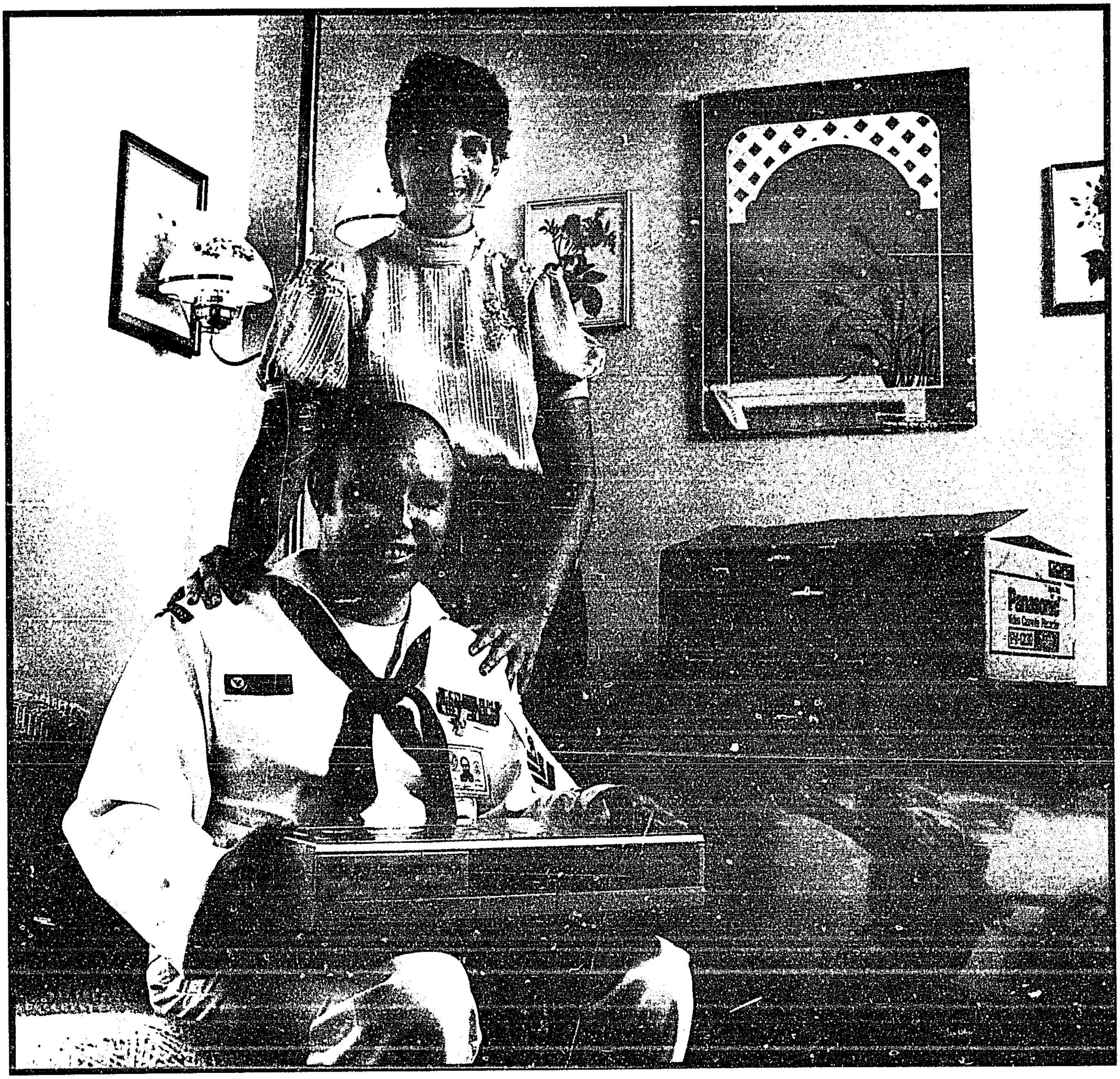
CUB Stores are bigger-than-life versions of the Sun Supermarkets offering lower prices than conventional supermarkets and considerably more items—as many as 20,000—compared with 12,000 to 14,000 in conventional stores.

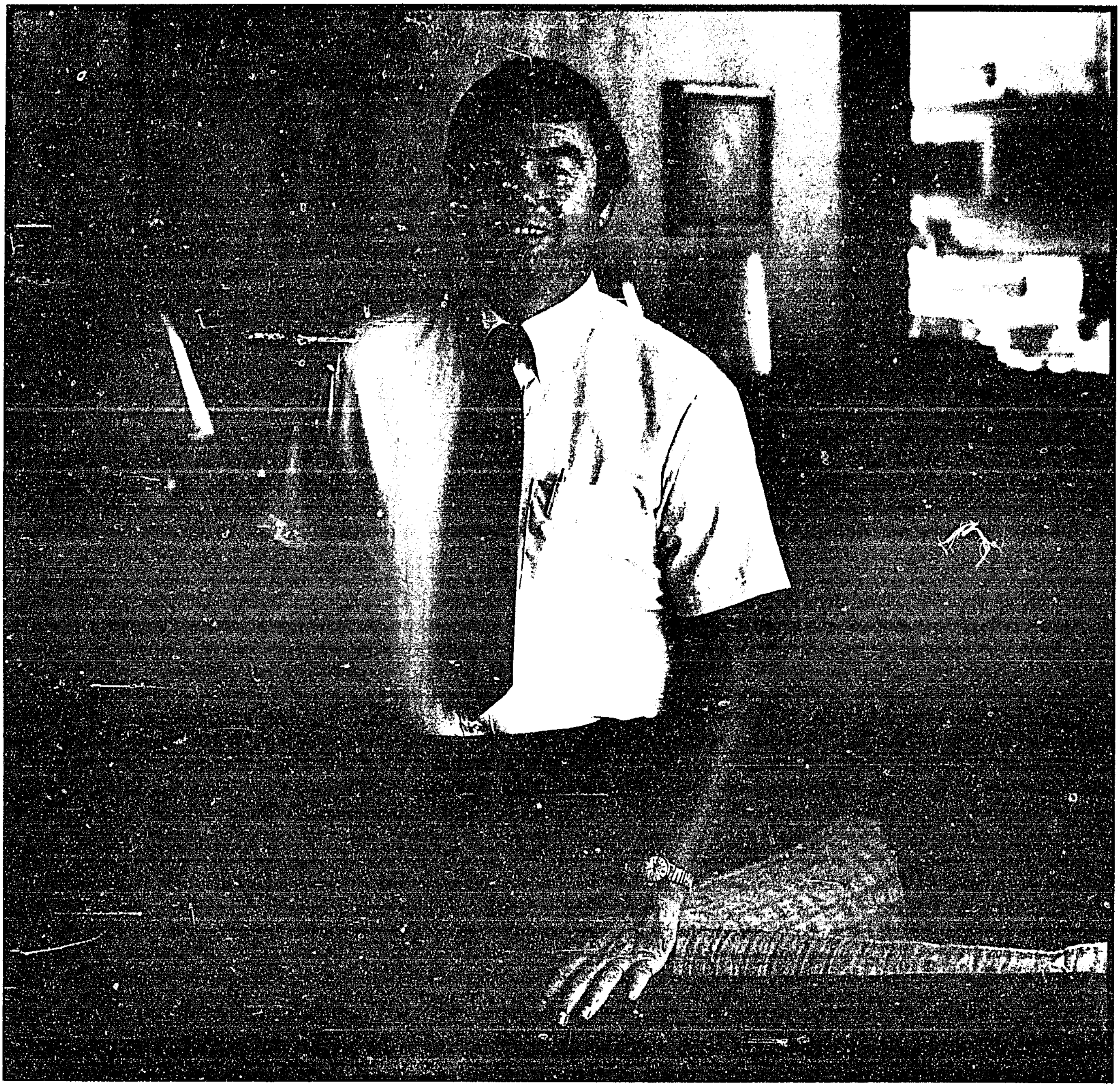
In addition to lower prices and a vast name-brand item selection, CUB features quality produce and perishable departments, along with specialty meat, seafood, bakery and smoked meat departments. A wide array of non-food items and the addition of pharmacy departments will complete the excitement of CUB.

CUB Stores are functional with operational cost-savings translated into lower prices. CUB Stores' appeal is to shoppers more concerned with quality and value than cosmetic decor and non-essential services that ultimately add to costs and higher prices.

In preparation for the CUB openings, staff selection and training has begun, as well as the refinement of operating procedures and development of marketing plans.

"Without the help of Devon I could not have moved into my home. They have found themselves a loyal customer."

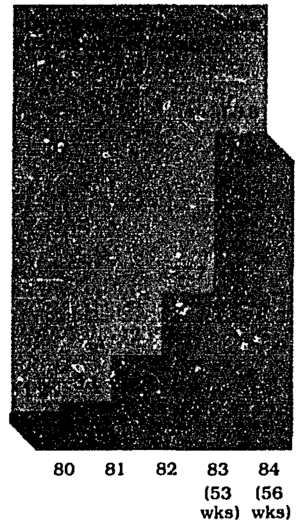




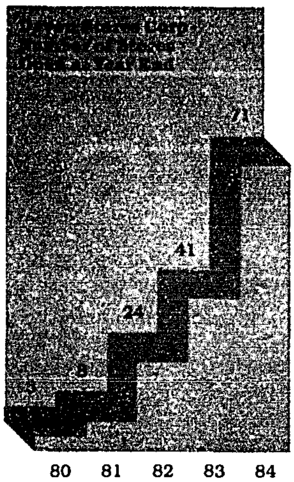
"At Devon we carry quality brand merchandise. Extending credit is an essential part of company policy. This is how we attract solid and loyal customers."

DIVERSIFICATION THROUGH DEVON ACQUISITION

The Devon Stores acquisition in May, 1984 diversifies the Company's retailing operations, enhances its earnings and provides Devon with access to the Company's management, financial and administrative resources to facilitate its growth.



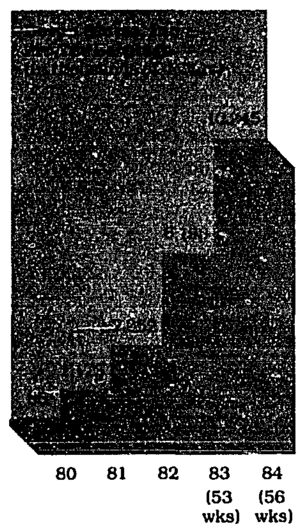
Devon's sales and earnings have increased dramatically since its start in 1980. In four years, sales have grown from $1.2 million to more than $50 million and pretax earnings from $85,000 to $10 million.



Devon sells quality consumer household products on credit to U.S. military personnel through over 71 retail stores nationally located near military bases. Devon's product lines include stereo equipment, television sets, major appliances, cameras, jewelry and furniture.

Availability of credit to finance major purchases has been particularly attractive to young enlisted personnel who may have had no previously established credit. Installment payments are made to Devon through monthly payroll deductions authorized by the service personnel under the military allotment system.

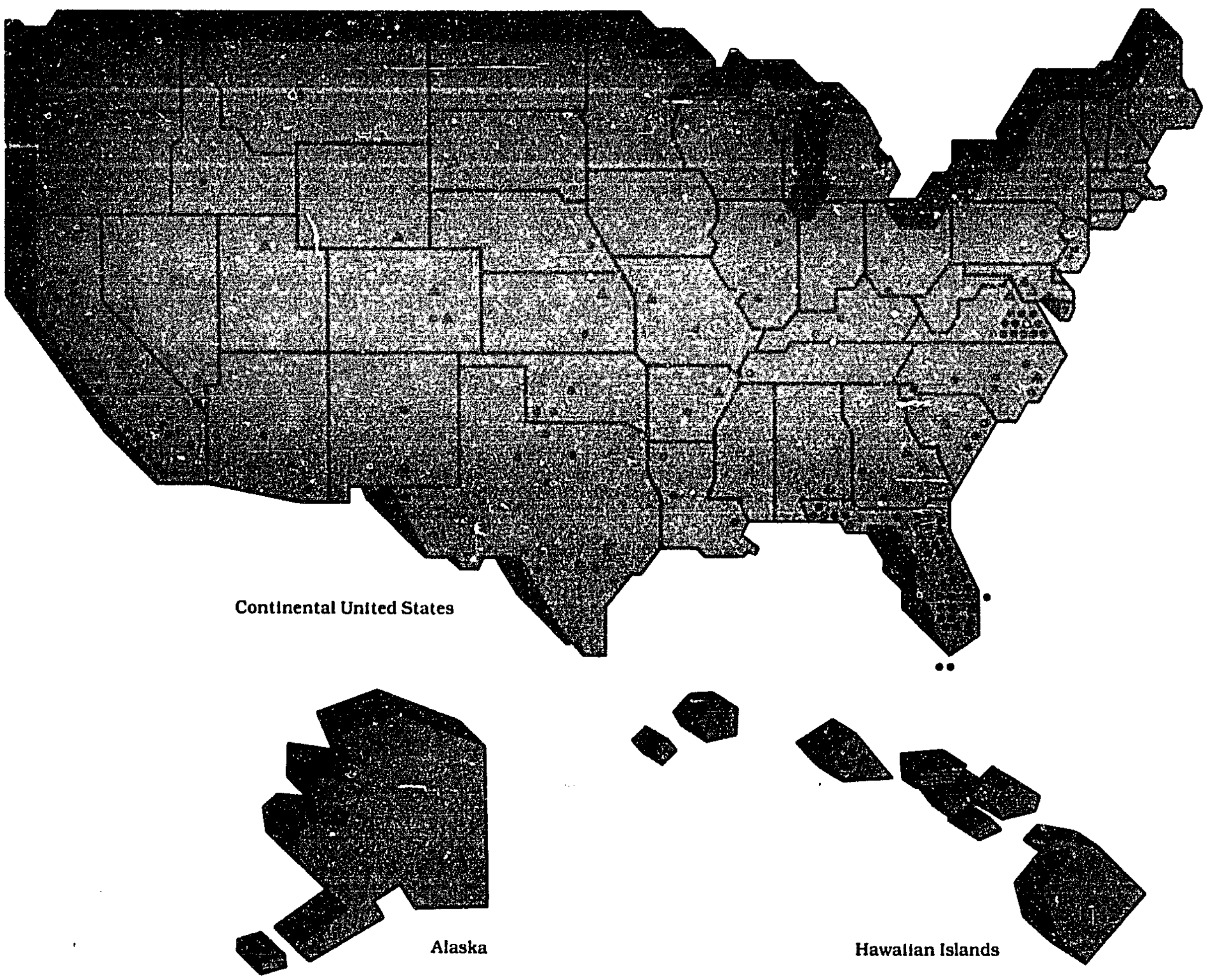
Devon plans to open approximately 30 stores in fiscal '85 and has identified at least 100 additional U.S. military bases near which the number of military personnel appears large enough to support profitable operations.



Diversification & Acquisitions

The Company continues to actively seek the acquisition of other profitable retail oriented businesses which will strengthen and diversify our operations and provide a stream of earnings which can be sheltered from federal income tax by our net operating loss carryforwards.

Senior officers of the Company comprise the Acquisitions Committee which evaluates prospective acquisition candidates for their potential contribution to the future growth of the Company.



- • Pantry Pride Supermarket
- • Sun Supermarket
- ▲ Future CUB Store Site
- • Devon Store
- ▲ Future Devon Store Site

Present and Future Pantry Pride Operations

"Careful and well considered targeted expansion will put this company on track for a profitable future."

Contents

	(dollars in thousands except per share data)	**July 28, 1984**	July 30, 1983	July 31, 1982	August 1, 1981	August 2, 1980 (a)
OPERATING RESULTS	Sales	**$770,411**	$941,635	$930,163	$1,191,926	$1,085,739
	Gross profit	**177,411**	217,203	203,900	255,200	224,247
	Selling, general and administrative expenses	**175,744**	208,540	197,843	258,774	222,694
	Depreciation and amortization—owned property	**7,339**	7,649	7,121	7,542	6,668
	Amortization of capital lease assets	**4,227**	4,740	3,767	5,237	5,874
	Interest income (expense), net	**1,176**	968	4,380	798	(4,450)
	Operating profit (loss)	**2,843**	9,631	10,437	(2,776)	(2,897)
	Provision for income taxes	**2,609**	8,403	9,131		1,866
	Earnings (loss) from continuing operations	**4,771**	8,950	11,317	(10,906)	10,997
	Primary earnings (loss) per share from continuing operations	**.17**	.35	.59	(1.43)	1.49
	Earnings (loss) from discontinued operations	**765**	(2,659)	(4,002)	292	2,735
	Extraordinary items	**4,392**	7,249	8,174	162,588	8,841
	Cumulative effect of accounting change				(1,820)	
	Net earnings	**9,928**	13,540	15,489	150,154	22,573
	Primary earnings per share	**.36**	.63	1.01	19.72	3.06
	Fully diluted earnings per share	**.36**	.62	.78	18.75	3.06
FINANCIAL POSITION	Total assets	**266,109**	244,081	225,674	223,169	365,982
	Working capital	**51,565**	60,603	35,004	39,837	74,826
	Inventories	**44,845**	66,282	69,403	66,194	79,196
	Property and equipment, net	**63,947**	87,886	89,887	77,044	101,022
	Obligations under capital leases, net of current portion	**17,339**	29,246	30,478	26,877	48,827
	Long-term debt	**27,357**	22,055	36,100	49,296	8,723
	8¾% Convertible exchange-able subordinated debentures, due 1998	**1,186**	42,500			
	Redeemable preferred stocks			37,436	32,611	1,619
	Current ratio	**1.70**	1.78	1.42	1.48	2.25
STOCKHOLDERS	Stockholders' equity (deficit)	**138,686**	58,287	22,353	11,642	(141,809)
	Stockholders' equity (deficit) per share of common stock	**3.67**	2.72	2.23	1.22	(19.27)
	Number of common shares issued	**37,782**	21,450	10,009	9,556	7,358
	Common stock price range—high-low	**6½-3⅛**	7¾-4¼	5⅞-2⅛	6-2¼	4¾-1⅜

(a) 53 weeks

See notes to consolidated financial statements.

RESULTS OF OPERATIONS

FISCAL 1984 COMPARED WITH FISCAL 1983

Sales for 1984 were $770.4 million compared to $941.6 million in 1983, an 18.2% decrease. The decrease can be primarily attributed to the closing of 56 older and outmoded stores during 1984. Sales recorded by the stores included in the store closing program during the current year were $37.6 million and are excluded from the statement of operations. This decrease was partially offset by the opening of 6 Sun Supermarkets and the acquisition of Devon Stores, Inc. ("Devon") in the fourth quarter of 1984. On a same store comparative basis, sales for the year decreased by 6.0% from the prior year. This decrease is due to intensifying competitive conditions in the Company's conventional markets, particularly in the Jacksonville Region.

Cost of sales, as a percentage of sales, was 77.0% for 1984 compared to 76.9% for 1983, an increase of 0.1%. The increase was the result of adjustments in pricing policies due to the competitive conditions and the effect of the lower Sun Supermarket gross margins offset, in part, by improved merchandising programs, reductions in store inventory shrinkage and higher Devon gross margins.

Selling, general and administrative expenses were 22.8% of sales in 1984 compared to 22.1% in 1983. The increase over the prior year of 0.7% was primarily due to occupancy expenses that remained constant but increased as a percentage of sales as sales decreased, increased labor costs attributable to contract labor increases, Devon's higher expense structure as a percentage of sales, and the start up costs for the Sun Supermarkets. These increases were partially offset by a decrease in advertising expenditures as a percentage of sales.

Net interest income was $1.2 million in 1984 compared to $1.0 million in 1983. The increase in interest income for 1984 compared to 1983 is directly related to the interest generated by Devon offset, in part, by lower short-term interest rates. In addition, the average cash balance, excluding the proceeds of $40.9 million from the May 1983 debenture offering, was lower during the current fiscal year. Interest income earned on the debenture proceeds, until their conversion in February 1984, was virtually offset by the associated interest expense.

Other income for 1984 of $4.5 million resulted primarily from gains on sales of two distribution facilities, along with other properties, and the reduction of the provision for disposal of closed properties offset by a provision for losses on closed stores.

The gain of $.8 million from discontinued operations (net of income tax effect of $.7 million) represents a reduction of the original provision for projected losses associated with the discontinuance of the Manufacturing operations in 1983.

In 1984, extraordinary income of $1.2 million was recognized from a reduction in Plan of Arrangement debt liability as a result of better-than-anticipated claim settlements. Extraordinary income of $3.2 million was also recognized in 1984 from the utilization of net operating loss carryforwards.

FISCAL 1983 COMPARED WITH FISCAL 1982

Sales for 1983 were $941.6 million compared to $930.2 million in 1982, a 1.2% increase. The increase was attributable to the net addition of 5 new stores in operation for all of 1983, which opened during 1982, and the start up of the export operations. Exporting was operational during fiscal 1983 and was terminated with the sale of the Miami distribution facility. These increases were offset by the sales decrease in the Miami Region, resulting from adverse economic conditions that negatively impacted seasonal business in southern Florida in general. Although sales had decreased in the south Florida area, various programs had been instituted to maintain profitability, including store inventory shrinkage programs, energy conservation systems, expense control programs and the closing of 24 unprofitable south Florida stores in the first quarter of fiscal 1984.

Cost of sales, as a percentage of sales, was 76.9% for 1983 compared to 78.1% for 1982, a decrease of 1.2%. The decrease was the result of improved merchandising programs, adjustments in pricing policies and reduction in store inventory shrinkage.

Selling, general and administrative expenses were 22.1% of sales in 1983 compared to 21.3% in 1982. The difference of .8% was due to increased labor costs associated with contract increases and additional staffing to provide improved customer service, higher occupancy expenses created by the amortization of costs associated with the Company's capital spending program and increased advertising and promotional costs expended to meet aggressive competition. The expenses for 1983 were offset, in part, by the decrease in utility costs experienced as a result of energy conservation systems installed during the 1983 fiscal year.

Net interest income of $1.0 million in 1983 compared to $4.4 million in 1982 reflected the reduction in prevailing interest rates, as well as a decrease in cash balances primarily due to the payment of $13.2 million to satisfy the requirements created by the Recapitalization and the two required Plan of Arrangement interim payments of approximately $5 million each.

Other income for 1983 of $7.7 million resulted primarily from the reduction of the provision for disposal of closed properties, gain on sales of properties closed during the normal course of business and the recovery of excess assets from terminated pension plans.

The loss of $2.7 million from discontinued operations (net of income tax effect of $2.6 million) resulted primarily from the decision made in 1983 to discontinue the Manufacturing operations. This was offset, in part, by the reduction, net of tax, of the provision established in 1982 for losses associated with the discontinuance of the Company's Footwear operations.

In 1983, extraordinary income of $1.3 million was recognized from a reduction in Plan of Arrangement debt liability as a result of better-than-anticipated claim settlements. Extraordinary income of $5.9 million was also recognized in 1983 from the utilization of net operating loss carryforwards.

FISCAL 1982 COMPARED WITH FISCAL 1981

Sales for 1982 were $930.2 million compared to $1.2 billion for 1981. Excluding the sales of the Baltimore Region's stores closed in 1981, sales increased 6.1% in 1982. The sales increase was primarily due to increased customer traffic in existing stores and the net addition of 7 stores.

Cost of sales was 78.1% of sales for 1982 compared to 78.6% in 1981. Excluding the Baltimore Region stores, cost of sales was 78.9% in 1981. The decrease from 1981 to 1982 was primarily attributable to the Company's ability to make advance purchases in order to take advantage of manufacturers' discounts, improvements in the Company's merchandising strategy and adjustments in pricing policies.

Selling, general and administrative expenses were 21.3% of sales in 1982 compared to 21.7% in 1981. Excluding the Baltimore Region stores, the expenses for 1981 were 20.6% of sales. The increase from 1981 to 1982 was attributable to increased labor costs predominantly due to wage increases and increased utility costs.

Net interest income was $4.4 million for 1982 compared to $.8 million in 1981, as a result of an increase in interest income due to a substantially greater amount of investments made at a higher rate of interest and a decrease in interest expense due to a reduction in interest-bearing debt. Interest income was adversely affected by the two required Plan of Arrangement interim payments of approximately $5 million each.

Other income for 1982 of $10.0 million resulted primarily from a favorable settlement of litigation with an insurance company, gains on sales of properties closed during the normal course of business and the reduction of the provision for disposal of closed properties offset, in part, by the expenses of the Baltimore union settlement.

The loss of $4.0 million from discontinued operations (net of income tax effect of $3.8 million) resulted primarily from the decision made in 1982 to discontinue the Footwear operations. Additionally, the results of Manufacturing operations (discontinued in 1983) for the year have been included, net of income tax.

In 1982, extraordinary income of $2.0 million was recognized from a reduction in Plan of Arrangement debt liability as a result of better-than-anticipated claim settlements. Extraordinary income of $6.2 million was also recognized in 1982 from the utilization of net operating loss carryforwards.

(a) For the effects of inflation on each year's financial statements, see "Supplementary Information on Changing Prices" disclosure included in accordance with Financial Accounting Standards Board Statement No. 33, "Financial Reporting and Changing Prices."

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

The Company believes it has, and will continue to have, adequate cash for normal operations and the previously announced initial phase of the Sun and CUB expansion program requiring $50.0 million in capital. To date, the committed portions of this program have been funded primarily with internal funds and long-term capitalized leases provided by shopping center developers. In addition, the Company is utilizing a $3.5 million tax lease facility to finance qualified equipment in the expansion program. The Company anticipates that future expansion will continue to be structured using leveraged and long-term leases, construction loans and long-term financing.

In May 1983 the Company realized $40.9 million in net proceeds from the issuance of $42.5 million of 8¾% Convertible Exchangeable Subordinated Debentures, due 1998 of which approximately 97% has been converted to the Company's common stock. The conversion resulted in an annual savings of approximately $3.7 million in interest payments. These savings, along with the proceeds received from the sale of closed stores and the sale of the Miami and Jacksonville distribution facilities and related inventory, will be used for capital expenditures.

On May 25, 1984 the Company consummated its purchase of Devon as approved by shareholders at a special meeting held on May 24, 1984. The purchase price, consisting of both common stock and cash, required the exchange of an aggregate of approximately 7,863,000 shares of Pantry Pride, Inc.'s common stock and approximately $41.1 million in cash for the common shares of Devon. The Company funded the acquisition from its cash balances maintained at that time.

Devon borrows against its long-term lines of credit to meet its financing needs. These borrowings are secured by accounts receivable balances which, therefore, determine the amount of credit available. Currently, Devon maintains a secured line of credit aggregating $27.0 million and an unsecured line of $3.0 million. Devon's future capital requirements will relate principally to the opening of new stores and the related growth of accounts receivable. Devon expects to finance this growth through internally generated funds and borrowings secured by the accounts receivable.

The Company currently has available two unsecured lines of credit, $10.0 million with Chemical Bank and $5.0 million with Southeast Bank, N.A. These credit facilities may be used to finance working capital requirements for normal operating needs and are available currently from Chemical at their prime commercial lending rate, while the Southeast line has a rate of one quarter of one percent above their prime rate.

(dollars in thousands except per share data)	52 Weeks Ended July 28, 1984	52 Weeks Ended July 30, 1983	52 Weeks Ended July 31, 1982
Sales	**$770,411**	$941,635	$930,163
Costs and expenses:			
Cost of goods sold	**593,000**	724,432	726,263
Selling, general and administrative	**175,744**	208,540	197,843
Interest, net	**(1,176)**	(968)	(4,380)
	767,568	932,004	919,726
Operating profit	**2,843**	9,631	10,437
Other income	**4,537**	7,722	10,011
Earnings from continuing operations before income taxes	**7,380**	17,353	20,448
Provision for income taxes	**(2,609)**	(8,403)	(9,131)
Earnings from continuing operations	**4,771**	8,950	11,317
Discontinued operations:			
Loss from operations net of (benefit) in lieu of income taxes of $(251) and $(1,101) in 1983 and 1982, respectively		(262)	(1,146)
Reduction in (provision for) estimated loss on disposition, net of provision (benefit) in lieu of income taxes of $735, $(2,303) and $(2,744) in 1984, 1983 and 1982, respectively	**765**	(2,397)	(2,856)
	765	(2,659)	(4,002)
Earnings before extraordinary items	**5,536**	6,291	7,315
Extraordinary items:			
Utilization of net operating loss carryforward	**3,242**	5,949	6,174
Debt reduction and restructuring	**1,150**	1,300	2,000
	4,392	7,249	8,174
Net earnings	**$ 9,928**	$ 13,540	$ 15,489
Earnings (loss) per common and common equivalent share:			
Continuing operations	**$ .17**	$ .35	$ .59
Discontinued operations	**.03**	(.16)	(.41)
Extraordinary items	**.16**	.44	.83
	$ .36	$ .63	$ 1.01
Earnings (loss) per common share fully diluted:			
Continuing operations	**$ .17**	$ .35	$ .48
Discontinued operations	**.03**	(.15)	(.29)
Extraordinary items	**.16**	.42	.59
	$ .36	$ .62	$ .78

See notes to consolidated financial statements.

	(dollars in thousands)	July 28, 1984	July 30, 1983
ASSETS	Current assets:		
	Cash	$ 2,874	$ 2,434
	Invested cash	21,733	60,292
	Accounts receivable	63,116	6,826
	Less: Allowance for doubtful accounts	(5,046)	(1,165)
	Deferred interest	(6,375)	
		51,695	5,661
	Inventories	44,845	66,282
	Prepaid and other	3,843	3,143
	Total current assets	124,990	137,812
	Net assets held for disposition	14,475	6,564
	Property and equipment:		
	Land	4,644	6,465
	Buildings	9,359	18,489
	Leasehold improvements	20,022	21,083
	Fixtures and equipment	42,467	53,574
	Leased assets under capital leases	34,350	56,649
		110,842	156,260
	Less accumulated depreciation and amortization:		
	Owned property and equipment	29,401	40,786
	Leased assets under capital leases	17,494	27,588
		46,895	68,374
	Total property and equipment	63,947	87,886
	Goodwill	51,101	
	Other assets	11,596	11,819
		$266,109	$244,081
LIABILITIES AND STOCKHOLDERS' EQUITY	Current liabilities:		
	Accounts payable	$ 21,119	$ 22,336
	Accrued salaries and expenses	34,659	38,630
	Current portion of long-term debt	14,483	11,546
	Current portion of capitalized lease obligations	3,164	4,697
	Total current liabilities	73,425	77,209
	Long-term debt	27,357	22,055
	Capitalized lease obligations	17,339	29,246
	8¾% Convertible exchangeable subordinated debentures, due 1998	1,186	42,500
	Pension termination liability	5,933	10,055
	Other liabilities	449	1,763
	Deferred income	1,734	2,966
	Commitments and contingencies		
	Stockholders' Equity:		
	Preferred stock, par value $1.00, 2,000,000 shares authorized, none issued		
	Common stock, par value $0.01, 60,000,000 shares authorized, 37,781,761 shares issued in 1984, 21,449,970 shares in 1983	378	215
	Capital in excess of par	148,467	78,159
	Deficit	(10,159)	(20,087)
	Total stockholders' equity	138,686	58,287
		$266,109	$244,081

See notes to consolidated financial statements.

(dollars in thousands)	Common Stock Par $0.01	Capital in Excess of Par	Deficit
Balance, August 1, 1981	$ 96	$ 60,662	$(49,116)
Preferred stock conversions	4	707	
Preferred stock accretion		(5,536)	
Stock options exercised		47	
Net earnings			15,489
Balance, July 31, 1982	100	55,880	(33,627)
Recapitalization	115	25,378	
Preferred stock conversions		3	
Preferred stock accretion		(3,111)	
Stock options exercised		9	
Net earnings			13,540
Balance, July 30, 1983	215	78,159	(20,087)
Stock options exercised	2	610	
Conversion of convertible debentures	82	40,290	
Acquisition of Devon	79	29,408	
Net earnings			9,928
Balance, July 28, 1984	**$378**	**$148,467**	**$(10,159)**

See notes to consolidated financial statements.

	(dollars in thousands)	52 Weeks Ended July 28, 1984	52 Weeks Ended July 30, 1983	52 Weeks Ended July 31, 1982
SOURCE OF FUNDS	Operations:			
	Earnings from continuing operations	**$ 4,771**	$ 8,950	$11,317
	Charges not affecting working capital:			
	Depreciation and amortization	**11,850**	12,389	10,888
	Provision for (reduction in) estimated loss on net assets held for disposition	**3,240**	(4,300)	(1,736)
	Other	**98**		(564)
	Funds from continuing operations	**19,959**	17,039	19,905
	Funds provided from (used in) discontinued operations	**765**	(2,310)	2,021
	Extraordinary items:			
	Utilization of net operating loss carryforward	**3,242**	5,949	6,174
	Gain from debt restructuring	**1,150**	1,300	2,000
	Funds provided from operations	**25,116**	21,978	30,100
	Issuance of debentures		42,500	
	Preferred stock accretion and conversions		3,108	5,536
	Common stock issued for debenture conversions and exercised options	**40,984**	25,502	47
	Common stock issued for acquisition of Devon	**29,487**		
	Proceeds from net assets held for disposition	**10,489**	4,576	28,909
	Sales of property and equipment, net	**4,158**	1,695	744
	Decrease in property and equipment, net	**23,669**		
	Other	**3,419**		
	Decrease in working capital	**9,038**		4,833
		$146,360	$99,359	$70,169
APPLICATION OF FUNDS	Retirement of preferred stock	**$**	$40,544	$
	Purchases of property and equipment, net	**13,361**	14,324	27,217
	Acquisition of Devon:			
	Property and equipment, net	**2,093**		
	Goodwill	**51,299**		
	Long-term debt	**(25,085)**		
	Total funds used for acquisition	**28,307**		
	Decrease in debentures upon conversion	**41,314**		
	Decrease in capitalized lease obligations	**11,906**	1,232	6,304
	Increase in net assets held for disposition	**10,005**	4,463	
	Decrease in long-term debt	**19,783**	14,045	3,291
	Decrease in capital in excess of par		3,108	5,536
	Disposition losses, net of gains	**11,634**	66	21,897
	Decrease in pension and other liabilities	**6,767**	1,089	2,285
	Increase (decrease) in investments and other assets	**3,283**	(5,111)	3,639
	Increase in working capital		25,599	
		$146,360	$99,359	$70,169

See notes to consolidated financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FISCAL YEAR
The Company's fiscal year ends on the Saturday nearest to July 31.

PRINCIPLES OF CONSOLIDATION
The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All material intercompany accounts and transactions have been eliminated.

ACCOUNTS RECEIVABLE
Accounts receivable installments are generally due from six to eighteen months. In accordance with trade practice, installments maturing in more than one year have been included in current assets. Interest on installment accounts receivable is recognized over the terms of the receivables based on an interest method.

INVENTORIES
Inventories are stated at the lower of cost or market, with cost being determined as follows: inventories in supermarkets, principally the retail inventory method; inventories in warehouses and all Devon locations, principally average cost.

PROPERTY AND EQUIPMENT
Property and equipment is recorded at cost or, in the case of capitalized leases, at the present value of the future lease payments. Depreciation and amortization are computed by the straight-line method over the estimated useful lives of the assets, and in the case of leasehold improvements, the shorter of the term of the lease or the estimated useful life of the improvements.

GOODWILL
Goodwill is the excess of cost over the fair value of net assets acquired and is being amortized by the straight-line method over 40 years.

DEFERRED INCOME
Deferred income represents the unrecognized gains resulting from the renegotiation of certain lease obligations which are amortized over the terms of the renegotiated leases.

STORE CLOSING AND OPENING EXPENSE
Losses resulting from store closings are provided for in the period when the decision is made to close the store, along with estimated losses on related asset dispositions. Non-capitalizable expenses incurred in connection with new, remodeled, or enlarged stores are expensed during the period the store is opened.

INSURANCE
The Company is self-insured for health and dental costs and was self-insured for worker's compensation, automobile and general liability prior to October 1983. Subsequent to that period, the coverage was changed to a prefunded insured program with both specific and aggregate excess coverages established. The remaining estimated self-insurance liability is based upon a review by the Company and an independent insurance broker of claims filed and claims incurred but not reported.

RETIREMENT PLANS
Pension expense charged to operations includes normal cost and amortization of prior service costs over a 40-year period. Pension costs are funded as accrued except that a waiver from the Internal Revenue Service had been obtained whereby 1978 costs of certain pension plans will be funded over a 15-year period.

BUSINESS SEGMENTS
Substantially all of the Company's assets, sales and operating earnings are employed or derived from a combination of retail supermarket and consumer merchandise operations in the United States.

RECLASSIFICATION
Certain reclassifications have been made to conform to the 1984 presentation.

ACQUISITION OF DEVON

On May 25, 1984, the Company acquired Devon by merger into a wholly-owned subsidiary of the Company. Under the terms of the merger, 1.6267 shares of the Company's common stock and $8.50 cash were exchanged for each share of common stock of Devon, representing an aggregate of approximately 7,863,000 shares of the Company's common stock and approximately $41,100 in cash.

The acquisition was accounted for by the purchase method and, accordingly, operations of Devon are included in the consolidated financial statements from the date of acquisition. The total cost of the acquisition was approximately $70,571, which exceeded the fair value of the net assets of Devon by $51,299.

As of July 28, 1984 Devon operated a chain of 71 stores near military bases under the name "Devon Home Center Stores" and sells electronic merchandise, cameras, jewelry, furniture, and major domestic appliances primarily to United States military personnel.

The following table summarizes, on an unaudited pro forma basis, the estimated combined statements of earnings of the Company and Devon for the years ended 1984 and 1983 as though the acquisition took place at the beginning of fiscal 1983. This pro forma information does not purport to be indicative of the results of operations which would have actually been obtained if the acquisition had been effective on the dates indicated. In addition, this pro forma financial information does not purport to be, and in the opinion of the Company is not, indicative of results of operations which may be obtained in the future.

	52 Weeks Ended	
	July 28, 1984	July 30, 1983
Sales	**$813,273**	$965,350
Earnings from continuing operations	**$ 5,353**	$ 8,311
Discontinued operations	**765**	(2,659)
Earnings before extraordinary items	**6,118**	5,652
Extraordinary items	**4,789**	4,322
Net earnings	**$ 10,907**	$ 9,974
Primary earnings per share:		
Earnings before extraordinary items	**$ .18**	$ .23
Net earnings	**$ .32**	$ .41

The above amounts reflect adjustments for interest on short-term borrowings, a decrease in investment income as a result of the purchase price, the Company's net operating loss carryforward, and amortization of goodwill.

PLAN OF ARRANGEMENT

On July 6, 1981 the Bankruptcy Court confirmed the Company's Amended Consolidated Plan of Arrangement, dated December 15, 1980, as modified, (the "Plan"), and the Company was discharged from its Chapter XI proceedings.

Under the Plan, the Company has been obligated to make cash payments amounting to $10,000 annually (in semi-annual installments of $5,000) to the holders of Class 1, Class 2 and Class 3 claims through January 15, 1985. In addition, on January 15, 1985, the Company must make a payment of approximately $5,000 so that the holders of Class 1 and Class 2 claims will have been paid 45% of their claims, and holders of Class 3 claims will have been paid 5%. (See Note entitled "Long-Term Debt.")

In addition to the above $10,000 annual payment, certain contingent payments are required to the extent "Excess Cash Flow" existed. Excess Cash Flow, a term defined by the Plan, has been essentially the Company's funds derived from operations and other sources in excess of those committed to its Capital Improvements Program, payments under the Plan and 3% of sales, which is defined in the Plan as the operating cash requirement of the Company. There was no Excess Cash Flow in 1984 or 1983.

(dollars in thousands except per share data)

PLAN OF ARRANGEMENT (continued)

The Plan contains covenants continuing until the payments referred to above are completed which, among other matters, (i) require the Company to maintain specified levels of consolidated tangible net worth; (ii) forbid borrowed indebtedness secured by certain inventories; (iii) prohibit the payment of cash dividends to shareholders; and (iv) limit the extent to which the Company may acquire or dispose of specified assets.

In 1984, 1983, and 1982, $1,150, $1,300 and $2,000, respectively, was recognized due to better-than-anticipated claim settlements as an extraordinary item.

RECAPITALIZATION

On January 20, 1983 the stockholders approved a Plan of Recapitalization (the "Recapitalization") designed to simplify the capital structure of the parent company and to eliminate certain provisions arising from the Chapter XI Plan of Arrangement and other ancillary agreements. The Recapitalization was accomplished through a merger of the parent company into New Pantry Pride, Inc., which was a wholly-owned subsidiary, and provided for the exchange of all of the parent company's preferred stock for approximately $13,200 in cash and 11.4 million shares of New Pantry Pride common stock, and the exchange of all of the parent company's common stock on a share-for-share basis for New Pantry Pride common stock. On January 20, 1983, simultaneous with the effectiveness of the merger, New Pantry Pride changed its name to Pantry Pride, Inc.

The impact of the Recapitalization on the financial statements was to retire approximately $40,500 of preferred stock, increase stockholders' equity by $25,500, and require aggregate cash payments of approximately $15,000.

LEASES

All non-cancellable leases with an initial term greater than one year have been categorized as capital or operating leases in conformity with the definitions in Financial Accounting Standards Board Statement No. 13, "Accounting for Leases."

The following analysis represents property under capital leases:

	1984	1983
Buildings	**$21,504**	$37,909
Equipment	**12,846**	18,740
	34,350	56,649
Less accumulated amortization	**17,494**	27,588
	$16,856	$29,061

At July 28, 1984, the Company is liable under terms of non-cancellable leases for the following minimum lease commitments:

	Capital Leases	Operating Leases
Year ended in:		
1985	$ 5,317	$ 8,074
1986	4,889	6,840
1987	4,740	5,343
1988	3,026	2,591
1989	2,238	1,930
Later years	9,889	15,513
Total minimum lease payments	30,099	$40,291
Less interest	9,596	
Present value of net minimum lease payments	$20,503	

LEASES (continued)

Rent expense under all operating leases having non-cancellable terms of more than one year is summarized as follows:

	1984	1983	1982
Minimum rentals	**$6,859**	$7,429	$5,867
Contingent rentals	**584**	407	499
	$7,443	$7,836	$6,366

Equipment leases are generally operating leases for data processing equipment and store fixtures and equipment. Supermarket leases are generally capital leases with initial terms of up to 25 years, usually with several five-year renewal options.

ACCRUED SALARIES AND EXPENSES

	1984	1983
Salaries and related benefits	**$10,257**	$13,267
Self-insurance	**4,480**	7,689
Sales taxes	**4,029**	1,205
Other	**15,893**	16,469
	$34,659	$38,630

LONG-TERM DEBT

	1984	1983
Plan of Arrangement debt, non-interest bearing, maturing through 1985	**$12,314**	$24,829
Mortgage loans, 5.9% to 15.0% (weighted average of 11.1% in 1984 and 9.9% in 1983) maturing annually at varying amounts through 1998	**3,296**	7,664
Notes payable	**25,105**	
Other	**1,125**	1,108
	41,840	33,601
Less current portion	**14,483**	11,546
	$27,357	$22,055

On September 27, 1983, a $15,000 unsecured line of credit replaced a secured revolving credit agreement for the same amount which had provided a working capital line of credit. This new facility can be used to finance working capital requirements for normal operating needs and is available at terms that are mutually agreeable between the Company, Chemical Bank and Southeast Bank, N.A. As of July 28, 1984, no portion of the previous working capital line of credit was outstanding.

Notes payable, assumed in the acquisition of Devon, are secured at year end 1984 by $54,476 of accounts receivable. The secured notes represent borrowings, bearing interest at ¼ to 2% over prime. Interest at year end ranged from 13¼% to 15%. Currently, the Company, through Devon, maintains a secured line of credit aggregating $27.0 million and an unsecured line of $3.0 million. To a lesser extent, the Company assumed notes payable to a bank which are collateralized by computer hardware and software and other assets.

The aggregate annual maturities of long-term debt for the five years subsequent to July 28, 1984 are $14,483, $25,513, $371, $235, and $384. The mortgage notes are secured by substantially all owned land and buildings.

8¾% CONVERTIBLE EXCHANGEABLE SUBORDINATED DEBENTURES, DUE 1998

In accordance with the Amended Indenture Agreement, the Company reduced the conversion price on its 8¾% Convertible Exchangeable Subordinated Debentures, due 1998 (the "Debentures") from $6.25 to $5.00 for any debenture holder who converted during the period which commenced January 13, 1984 and ended February 3, 1984.

Holders of $41,313 of the original total issue of $42,500 converted their Debentures into 8,262,600 shares of common stock. The conversion price has reverted to $6.25 per share on the Debentures which remain outstanding.

The conversion was accounted for in the second quarter of fiscal 1984 as extinguishment of debt as set forth in Accounting Principles Board Opinion No. 26 and had no material effect on the financial statements.

CONTINGENCIES

In December 1982, Pantry Pride received a claim by the Retail Clerks Tri-State Pension Fund (the "Fund"), a multiemployer pension fund, for approximately $21,000, plus interest, payable in monthly installments of approximately $326 over an eighty-month period. The claim is based upon the purported "withdrawal liability" incurred by the Company upon its withdrawal from the Fund as a result of the closing of five supermarkets located in Delaware in accordance with Pantry Pride's decision to terminate its Baltimore Region supermarket operations in July 1981. In addition to employees of unrelated companies, the Fund encompasses former employees of Pantry Pride's 101 Philadelphia and New Jersey supermarket operations which were closed in January 1979, as well as those in the Delaware supermarkets.

At the time of the closing of its Baltimore Region operations in 1981, Pantry Pride established reserves to cover the estimated costs and expenses arising therefrom or related thereto. With respect to the five Delaware supermarkets participating in the Fund, the Company, after consultation with its independent actuaries, established a withdrawal liability reserve in an amount substantially lower than that of the Fund's claim, which reserve was charged against the Company's fiscal 1981 earnings. Management of the Company believes that the reserve, when established, was and still is, adequate.

In January 1983, Pantry Pride initiated litigation against the Fund, its individual trustees, and the plan administrator in the United States District Court for the Eastern District of Pennsylvania (the "Court") requesting a temporary and permanent injunction against enforcement of the Fund's claim. In addition, the suit challenges the constitutionality of the Multiemployer Pension Plan Amendments Act of 1980 ("MPPAA") and further alleges that the actions of the Fund in seeking to collect the liability set forth in the claim violate certain provisions of MPPAA, common law and federal anti-trust laws. The litigation is in the preliminary procedural stages in which the defendants have sought dismissal on grounds that Pantry Pride's claim must be arbitrated, and Pantry Pride has cross-moved for partial summary judgment on the basis of certain statutory provisions.

In March 1983, the District Court ordered that there shall be no acceleration of Pantry Pride's liability pending further order of the Court and stayed arbitration pending resolution of Pantry Pride's constitutional challenge to MPPAA. At a hearing on April 12, 1983, the Court declined to grant the Fund's motion to compel interim security payments of $326 per month, and instead stated that it will require the Company to make interim security payments of $15 per month to the Fund. In accordance with the Court's directive, Pantry Pride has commenced making such interim security payments for the period commencing January 1, 1983. In August 1984, the Third Circuit Court of Appeals heard argument on the Fund's appeal of the District Court's decision concerning interim payments but has not rendered a decision.

CONTINGENCIES (continued)

Recently, both the Supreme Court and the Third Circuit, addressing in unrelated cases some but not all of the facial constitutional issues also raised by the Company, held that MPPAA is constitutional on its face. Such cases did not involve issues which would bear upon the Company's statutory defenses to the Fund's claim, the amount of interim payments required in cases involving claims by a withdrawing employer based on statutory violations by a pension fund, or the obligation of a withdrawing employer to arbitrate prior to resolution of its claims of statutory violation, nor did those cases address issues which have been raised by the Company relating to the unconstitutionality of MPPAA as applied in this case.

Counsel has advised that on the basis of the information currently available, the Company has substantial and meritorious defenses to the Fund's claim providing a sufficient basis for determination favorable to the Company. However, there can be no assurance as to the ultimate outcome of this matter. If a final, adverse adjudication in the full amount of the Fund's claim were entered, it would have a material adverse effect upon the financial condition of Pantry Pride.

STOCK OPTIONS

The Company has a stock option plan in which various officers and key employees may be granted nontransferable options at prices equal to the fair market value on the dates of grant. In general, the Plan provides that no option may be exercised prior to six months after the date of grant. Six months after the date of grant, an option becomes exercisable as to 25 percent and thereafter on each anniversary of the date of grant becomes cumulatively exercisable as to an additional 25 percent.

Transactions under the plan for the three years ended July 28, 1984 are as follows:

	Stock Options		
	1984	1983	1982
Balance, beginning of year	**121,000**	129,375	147,500
Granted:			
$4.50 to $6.00 per share	**614,500**	3,000	55,000
Exercised:			
$3.69 to $4.13 per share	**(6,250)**	(2,500)	(11,250)
Cancelled	**(7,750)**	(8,875)	(61,875)
Balance, end of year	**721,500**	121,000	129,375

On April 16, 1984, the stockholders approved an amendment increasing the number of shares of common stock available for the Company's stock option plan to 1,480,000 from 480,000. On July 28, 1984, approximately 600 key employees of the Company and its subsidiaries were eligible to participate in the plan, 31 of whom then held options under the plan.

At July 28, 1984, there were options exercisable covering 113,375 shares at prices ranging from $3.50 to $6.00 per share compared to options exercisable covering 91,375 shares at prices ranging from $3.50 to $5.13 at July 30, 1983. The options outstanding at July 28, 1984 range in expiration dates from April 10, 1989 to March 11, 1994 and have an average exercise price of $4.63 per share. As of July 28, 1984, an additional 758,500 shares were available for granting of options. Certain shares granted are subject to stock appreciation rights, none of which have been exercised.

In addition to the above Plan, on January 4, 1979 the Company granted its Chairman of the Board and Chief Executive Officer a nontransferable option to acquire up to 200,000 shares of its common stock at $2.00 per share. On October 12, 1983 the option was exercised.

(dollars in thousands except per share data)

OTHER INCOME (EXPENSE)

	1984	1983	1982
Provision for losses on closed stores	$(7,050)	$	$
Gains on sale of real estate	5,909	2,034	2,661
Reduction of reserve for other net assets held for disposition	3,810	4,300	1,500
Recovery of excess assets from terminated operations pension plans	488	1,050	
Reduction of Baltimore pension termination liability	1,380		564
Litigation settlements			4,750
Interest on tax refund		200	300
Other		138	236
	$ 4,537	$7,722	$10,011

During 1984, the Company closed 56 stores in the Miami and Jacksonville Regions. A $7,050 provision was established for projected losses associated with the closing and for potential losses on disposition of the related assets.

The Company sold its Miami and Jacksonville distribution facilities, including land, equipment and inventory, to Super Valu Stores, Inc. during the current year. This, along with other property sales, resulted in gains on sale of real estate for the year of $5,909.

Since 1979, management has periodically reviewed the incurred and estimated carrying and selling costs, and losses originally expected to be incurred in connection with the sale or liquidation of the assets of supermarket operations in the New York, Connecticut, New Jersey, Pennsylvania and Tampa, Florida areas. As a result, it became evident that the allowances as originally estimated exceeded the amounts necessary to adequately provide for estimated losses. Accordingly, these allowances were reduced by approximately $3,810, $4,300 and $1,500 in 1984, 1983 and 1982, respectively.

During 1984 and 1983, the Company received distributions from terminated pension plans related to closed operations, representing plan assets in excess of plan liabilities. During 1981, a liability was established to provide for the Company's withdrawal from certain union-sponsored pension plans in the closed Baltimore Region. During 1982 and again in 1984, the Company received demands for payment substantially less than their estimated provision. Accordingly, the provision has been reduced.

During 1982, suits entitled *Stonewall Insurance Company v. Food Fair Stores, Inc.* and *Stonewall Insurance Company v. Food Fair, et al*, were settled for $7,750. The Plaintiff sought to have amounts due Pantry Pride, Inc. under various insurance policies which Stonewall had issued covering Pantry Pride, Inc. and several of its subsidiary and affiliated companies, between 1972 and 1976, declared invalid, plus compensatory and punitive damages.

Pantry Pride, Inc. had filed a cross-complaint asking to be reimbursed for amounts due, approximating $9,000, under the various insurance policies. Netted against the income from the settlement of the Stonewall matter was a charge of $3,000, including legal fees of $300, representing the settlement of a suit entitled *Local 692, United Food and Commercial Workers Union, AFL-CIO, et al v. Pantry Pride, Inc.*, which asserted that the Company violated the terms of purported amendments to collective bargaining agreements by discontinuing its supermarket, warehouse and trucking operations in its Baltimore Region in mid-August, 1981.

INCOME TAXES

The provision for income taxes in 1984, 1983, and 1982 is as follows:

	1984	1983	1982
Refund on taxes provided in prior years	$	$	$ (288)
Provision in lieu of income taxes	2,507	8,403	9,419
Deferred state income taxes	102		
	$2,609	$8,403	$9,131

A reconciliation of the Company's effective tax rate and federal statutory rate for 1984, 1983, and 1982 is as follows:

	1984	1983	1982
Taxes computed at statutory rate	$3,395	$7,982	$9,406
	46.0%	46.0%	46.0%
State income taxes, net of federal tax effect	221	521	613
	3.0%	3.0%	3.0%
Federal income tax refunds			(288)
			(1.4%)
Lower tax rate for capital gains	(975)		
	(13.2%)		
Permanent differences between book and tax expenses	(32)		
	(.4%)		
Sales of tax benefits		(100)	(600)
		(.6%)	(3.0%)
	$2,609	$8,403	$9,131
	35.4%	48.4%	44.6%

The 1984, 1983, and 1982 provision in lieu of income taxes represents the equivalent amount which would be required in the absence of the available operating loss carryforwards. The Company has recognized a tax benefit of $3,242 in 1984 ($2,507 from continuing operations, plus $735 from discontinued operations), $5,949 in 1983 ($8,503 from continuing operations, less $2,554 from discontinued operations), and $6,174 in 1982 ($10,019 from continuing operations, less $3,845 from discontinued operations), resulting from the utilization of net operating loss carryforwards as a reduction of taxable income. This benefit has been recorded as an extraordinary item.

The Company and its subsidiaries file a consolidated federal income tax return. At July 28, 1984 the Company and its subsidiaries have available, to reduce future taxable income, a net operating loss carryforward approximating $330,000 (subject to certain interpretations and restrictive provisions of the Internal Revenue Code) which expires as follows: $9,000 in 1989; $12,000 in 1990; $4,000 in 1991; $125,000 in 1994; $151,000 in 1996; $13,000 in 1997; $3,000 in 1998; and $13,000 in 1999. The net operating losses expiring in years 1989 through 1991 are carried forward from taxable years which have been audited by the Internal Revenue Service; subsequent losses are in taxable years which have not been examined by the Internal Revenue Service. In addition to the net operating loss carryforward, $9,000 has been expensed in the financial statements which is not currently deductible for tax purposes, but is expected to be available to reduce future taxable income.

Investment tax credits of approximately $9,300 are available at July 28, 1984 (subject to certain restrictive provisions of the Internal Revenue Code) for use in federal income tax returns. The investment tax credits expire in varying amounts annually from 1989 through 1999.

DISCONTINUED OPERATIONS

In July 1983, the Company approved a plan to discontinue the operation of its unprofitable Manufacturing Group, which included food manufacturing and processing facilities for coffee roasting, soft drink bottling, and tea and powdered drink mix packaging. During fiscal 1984, substantially all of the assets of the operations have been sold. During the year, the original provision for projected losses associated with the discontinuance of the Manufacturing Group was reduced by $1,500.

(dollars in thousands except per share data)

DISCONTINUED OPERATIONS (continued)

In addition to supplying the Company, the Manufacturing Group also supplied outside parties. Outside sales amounted to $15,623 during fiscal 1983 and, as such, have been reclassified along with cost of goods sold and expenses as discontinued operations in the Consolidated Condensed Statements of Earnings.

In May 1982, the Company discontinued its Footwear operations. A $5,600 provision was established for projected losses associated with the discontinuance and was reduced by $300 in 1983 when substantially all the assets were liquidated.

EARNINGS PER SHARE

Earnings per common and common equivalent share is computed with net earnings applicable to common stock, less accretion in 1983 and 1982, and with the weighted average number of common and common equivalent shares outstanding. Conversion of $41,314 of the Debentures into approximately 8,263,000 shares of common stock and 7,863,000 shares issued for the purchase of Devon are included in the computation of earnings per share on a weighted average basis from the date of issuance. Contingent shares that are issuable at a future date, in accordance with the Chapter XI Plan of Arrangement, and options granted to certain employees are considered common stock equivalents.

The presentation of fully diluted earnings per common share for 1984 is the same as primary earnings per share because the assumed conversion of potentially dilutive common stock equivalents resulted in anti-dilution.

In the prior years, earnings per common share, fully diluted, is computed in the same manner as earnings per common and common equivalent shares, plus the weighted average effect of the assumed conversion of the 8¾% Convertible Subordinated Debentures issued in May 1983 and the assumed conversion of the Class A Cumulative Convertible Preferred Stock. The weighted average effect of the assumed conversion of the Class A Cumulative Convertible Preferred Stock was included only in the 1982 calculations and the first quarter of 1983 due to its retirement during the second quarter of fiscal 1983, as a result of the Recapitalization on January 20, 1983.

PENSION PLANS

The Company and its subsidiaries have maintained various noncontributory single-employer pension plans covering certain hourly and salaried employees. Most other full-time and certain part-time employees have been covered by multiemployer plans jointly administered by unions and Company representatives. Accumulated plan benefit information, as estimated by consulting actuaries, and plan net assets for the single-employer plans are:

	January 1, 1983	January 1, 1982
Actuarial present value of accumulated plan benefits:		
Vested	**$26,716**	$26,989
Non-vested	**1,186**	833
	$27,902	$27,822
Net assets available for benefits	**$21,491**	$16,857

The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 7%.

Pension expense for all pension plans for 1984, 1983 and 1982 was $2,339, $3,540 and $3,258, respectively. Required payments for the years 1985 through 1989, associated with the closing of the Company's Baltimore Region, are currently estimated at $2,777, $1,197, $1,189, $1,090 and $425, respectively.

The Company's salaried employees' pension plans have been discontinued as of the beginning of fiscal 1985. Any participants in the plans have become immediately vested at that point. Benefits that have accrued on their behalf will be placed in an annuity that commences payments at age 65. As a replacement benefit, the Company has adopted a Deferred Savings Plan for salaried employees pursuant to Section 401(k) of the Internal Revenue Code commencing with the 1985 fiscal year.

SEGMENT INFORMATION

The Company's segments include retail supermarket operations located in Florida, southern Georgia, Virginia and the Bahamas and also consumer merchandise operations located throughout the United States.

Total operating profit includes costs of goods sold, selling, general and administrative expenses, and interest, net.

Segment information is as follows:

	52 Weeks Ended July 28, 1984
Sales:	
Supermarket operations	$762,085
Consumer merchandise operations	8,326
Total sales	$770,411
Earnings from continuing operations before income taxes:	
Supermarket operations	$ 827
Consumer merchandise operations	840
Interest, net	1,176
Total operating profit	2,843
Other income	4,537
Earnings from continuing operations before income taxes	$ 7,380

	52 Weeks Ended July 28, 1984
Identifiable assets:	
Supermarket operations	$156,999
Consumer merchandise operations	109,110
Total identifiable assets	$266,109
Capital expenditures (excluding capital leases):	
Supermarket operations	$ 11,772
Consumer merchandise operations	339
Total capital expenditures	$ 12,111
Depreciation and amortization expense:	
Supermarket operations	$ 11,541
Consumer merchandise operations	309
Total depreciation and amortization expense	$ 11,850

WORKING CAPITAL CHANGES

	1984	1983	1982
Cash	$ 440	$ 747	$ 612
Invested cash	(38,559)	30,344	(15,366)
Accounts receivable, net	46,034	(1,431)	(1,126)
Inventories	(21,437)	(3,121)	3,209
Prepaid and other	700	(7,165)	7,488
Notes payable		500	500
Accounts payable	1,217	2,474	(153)
Accrued salaries and expenses	3,971	3,462	(2,956)
Current portions of long-term debt and capitalized lease obligations	(1,404)	(211)	2,959
Increase (decrease) in working capital	$ (9,038)	$25,599	$ (4,833)

SUBSEQUENT EVENTS

On October 4, 1984, the Company announced that it had reached an agreement with Adams Drug Co., Inc. ("Adams") pursuant to which Adams will merge with a subsidiary of the Company. The Company commenced a tender offer for all of the common stock of Adams at $24.39 per share, and the offer is conditional upon obtaining 80% of the outstanding shares of Adams. The total transaction is valued at approximately $100,000 and will be principally funded by a group of banks.

Originally organized in 1933, Adams currently operates 420 retail drug and health-and-beauty aid stores located in 10 states in the Northeast, with sales for fiscal year 1983 of $302,100. On a pre-tax basis, Adams' 1983 FIFO earnings were $16,500 and its LIFO earnings were $14,100.

On October 14, 1984, the Company sold 20 supermarkets, including equipment and inventory comprising the Virginia Region, to The Great Atlantic & Pacific Tea Company, Inc. for approximately $14,500.

Board of Directors and Stockholders
Pantry Pride, Inc.
Fort Lauderdale, Florida

We have examined the consolidated balance sheets of Pantry Pride, Inc. and its subsidiaries as of July 28, 1984 and July 30, 1983, and the related consolidated statements of earnings, common stockholders' equity and changes in financial position for each of the three years in the period ended July 28, 1984. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Pantry Pride, Inc. and subsidiaries at July 28, 1984 and July 30, 1983, and the results of their operations and changes in their financial position for each of the three years in the period ended July 28, 1984, in conformity with generally accepted accounting principles applied on a consistent basis.

Miami, Florida
October 3, 1984

Touche Ross & Co.
Certified Public Accountants

The management of Pantry Pride, Inc. has prepared and is responsible for the accompanying consolidated financial statements. The statements were prepared in accordance with generally accepted accounting principles and, reflecting management's best judgment, present fairly the Company's financial position and results of operations.

The Company maintains an accounting system and related controls that it believes are sufficient to provide reasonable assurance that financial records are reliable for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance is based on the recognition that the cost of a system of internal control must be related to the benefits derived and that the balancing of those factors requires estimates and judgment.

The independent certified public accountants provide an objective, independent review as to management's discharge of its responsibilities insofar as they relate to the fairness of reported operating results and financial condition. They obtain and maintain an understanding of the Company's accounting controls, and conduct such tests and related procedures as they deem necessary to arrive at an opinion on the fairness of the consolidated financial statements.

The Audit Committee, comprised solely of outside directors, periodically meets with the independent certified public accountants, the internal auditors and representatives of management to discuss auditing and financial reporting matters. The independent certified public accountants have free access to meet with the Audit Committee, without management representatives present, to discuss the scope and results of their examination and their opinion on the adequacy of internal control and the quality of financial reporting.

October 3, 1984

PANTRY PRIDE, INC.

BACKGROUND

The Financial Accounting Standards Board issued Statement No. 33, Financial Reporting and Changing Prices, which provides methods for presenting information to evaluate the impact of inflation on the historical financial statements. These methods involve the use of numerous assumptions and estimates; therefore, the resulting measurements should be viewed in that context and not as precise indicators of the effects of inflation.

The historical cost financial statements, which do not fully reflect the effects of inflation, are prepared in accordance with generally accepted accounting principles. This method maximizes the reliability of financial reporting because it is objective and verifiable. In the accompanying schedules, this historical cost information has been restated to show (i) the effects of general inflation (constant dollar) and, (ii) the effects of changes in specific prices (current cost).

CONSTANT DOLLAR

In the constant dollar restatement, certain historical transactions were stated in dollars of equivalent purchasing power using the Consumer Price Index for all urban consumers. Property, equipment and inventories were restated in constant dollars; and the related depreciation and amortization expense and change in inventory values were reflected in cost of goods sold and the operating and administrative expenses. Depreciation and amortization expense is calculated using the constant dollar cost of property and equipment and applying the same methods and estimated lives used in preparing the historical financial statements.

CURRENT COST

In the current cost restatement, certain historical transactions were adjusted to reflect changes in specific prices of the resources used in the Company's operations. Appropriate published indices were selected to adjust the cost of the Company's property and equipment. Depreciation and amortization were calculated using the current cost of property and equipment and applying the same methods and estimated lives used in preparing the historical financial statements. The current cost valuation of inventories was calculated using the approximate purchase cost at year end. Cost of goods sold reflects the approximate cost at time of sale.

SUMMARY

As indicated in the accompanying Consolidated Statement of Earnings (Loss) Adjusted for the Effects of Changing Prices, there is a significant impact on earnings with both the constant dollar and current cost methods. This difference is principally due to changes in cost of goods sold resulting from two factors. First, because the Company primarily uses the first-in, first-out method of inventory valuation, an amount is added to cost of goods sold representing inflationary increases in costs. Second, property and equipment which are reported in the primary financial statements at historical cost, would cost substantially more if purchased today. The depreciation and amortization charges in the adjusted statements are based on the higher cost for these assets.

The Company believes that this supplementary data should be viewed with caution since such data cannot objectively portray all financial and economic indicators. Therefore, this information should not be considered as a precise indication of the impact of inflation upon the Company.

Consolidated Statement of Earnings (Loss) Adjusted for the Effects of Changing Prices

(dollars in thousands except per share data)	As Reported In Financial Statements	Adjusted For General Inflation	Adjusted For Changes In Current Costs
Sales	$770,411	$770,411	$770,411
Costs and expenses:			
Cost of goods sold	593,000	595,152	593,157
Selling, general and administrative expenses	175,744	182,127	182,101
Interest, net	(1,176)	(1,176)	(1,176)
	767,568	776,103	774,082
Operating profit (loss)	2,843	(5,692)	(3,671)
Other income	4,537	4,537	4,537
Provision for income taxes	(2,609)	(2,609)	(2,609)
Earnings (loss) from continuing operations	$ 4,771	$ (3,764)	$ (1,743)
Gain in purchasing power of net monetary liabilities		$ 2,608	

At July 28, 1984, the current cost of inventory was $44,808 and the current cost of property and equipment, net of accumulated depreciation was $102,667. Depreciation and amortization expense on a historical cost/constant dollar basis amounted to $18,037 in the aggregate and on a current cost basis amounted to $18,010 in the aggregate.

Five Year Comparison of Selected Financial Data Adjusted for Effects of Changing Prices

(dollars in thousands except per share data)	Fiscal Year 1984	1983	1982	1981	1980
Sales	**$770,411**	$979,300	$1,004,576	$1,394,553	$1,411,461
Historical cost information adjusted to constant dollars					
Loss from continuing operations	**(3,764)**	(3,568)	(1,110)	(57,961)	(11,056)
Loss from continuing operations per share (a)	**(.13)**	(.41)	(.72)	(7.61)	(1.50)
Net assets at end of year	**176,024**	141,210	152,702	136,503	48,598
Historical cost information adjusted to current dollars					
Earnings (loss) from continuing operations	**(1,743)**	(1,541)	1,155	(52,482)	(3,751)
Loss from continuing operations per share (a)	**(.06)**	(.29)	(.49)	(6.89)	(.51)
Net assets at end of year	**173,822**	138,981	155,584	144,010	(27,724)
Excess (shortage) of increase in general price level over increase in specific prices	**11,062**	(2,592)	(7,628)	6,574	9,434
Gain in purchasing power of net monetary liabilities	**2,608**	3,222	9,390	36,103	77,598
Market price per share at year end (b)	**3.13**	6.63	5.00	4.68	3.90
Average consumer price index	**305.9**	294.7	283.4	261.7	234.9

(a) Loss used to calculate per share information was increased for accretion of $3,111 for fiscal 1983 and $5,536 for fiscal 1982.
(b) The actual year-end closing market prices were $3 13, $6.38, $4.63, $4.00 and $3.00 from 1984 through 1980, respectively.

(dollars in thousands except per share data)	Quarter Ended Nov. 19, 1983	Feb. 11, 1984	May 5, 1984	July 28, 1984	Total 1984
Sales	$231,756	$178,593	$188,714	$171,348	$770,411
Gross profit	53,489	40,653	42,237	41,032	177,411
Operating profit	1,486	650	170	537	2,843
Earnings from continuing operations before income taxes	2,479	650	2,776	1,475	7,380
Provision for income taxes	(1,215)	(318)	(1,360)	284	(2,609)
Earnings from continuing operations	1,264	332	1,416	1,759	4,771
Earnings from discontinued operations	255	382	128		765
Extraordinary items (a)	1,460	1,836	1,482	(386)	4,392
Net earnings	2,979	2,550	3,026	1,373	9,928
Earnings per share, primary	.13	.11	.10	.04	.36
Earnings per share, fully diluted	.13	.11	.10	.04	.36

(dollars in thousands except per share data)	Quarter Ended Nov. 20, 1982	Feb. 12, 1983	May 7, 1983	July 30, 1983	Total 1983
Sales	$286,392	$227,266	$222,343	$205,634	$941,635
Gross profit	64,606	52,330	52,313	47,904	217,203
Operating profit	1,327	3,027	4,168	1,109	9,631
Earnings from continuing operations before income taxes	1,923	4,203	5,009	6,218	17,353
Provision in lieu of income taxes	(942)	(1,960)	(2,454)	(3,047)	(8,403)
Earnings from continuing operations	981	2,243	2,555	3,171	8,950
Earnings (loss) from discontinued operations	(112)	(98)	110	(2,559)	(2,659)
Extraordinary items (a)	1,835	2,265	2,560	589	7,249
Net earnings	2,704	4,410	5,225	1,201	13,540
Earnings per share, primary	.07	.24	.23	.05	.63
Earnings per share, fully diluted	.07	.24	.23	.05	.62

(a) Gain from debt reduction and/or utilization of net operating loss carryforward.

Fiscal Year	Fiscal Quarter Ended	High	Low
1984	**November 19, 1983**	**6½**	**5⅜**
	February 11, 1984	**6½**	**5¼**
	May 5, 1984	**5¼**	**4⅛**
	July 28, 1984	**4¼**	**3⅛**
1983	November 20, 1982	5⅞	4¼
	February 12, 1983	5¾	5
	May 7, 1983	6¾	4⅞
	July 30, 1983	7¾	5⅜
1982	November 21, 1981	4½	2⅛
	February 13, 1982	5⅛	3¼
	May 8, 1982	5⅞	4⅜
	July 31, 1982	5⅞	4⅜

Stock Trading Markets: New York and Pacific Stock Exchanges
Approximate number of Stockholders of Record at July 28, 1984: 19,700

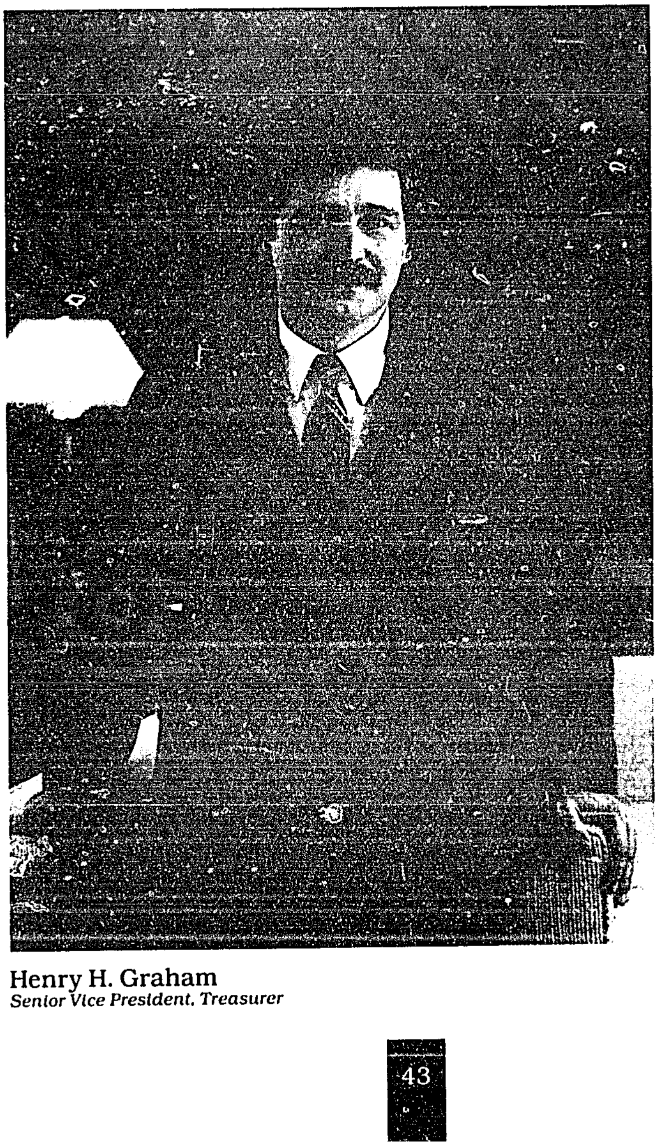
Market quotations are from Pacific Stock Exchange reports through February 18, 1983 and thereafter from New York Stock Exchange reports of composite transactions.

No dividends were declared or paid on the common stock during any of the periods set forth above. (See Note entitled "Plan of Arrangement" in Notes to Consolidated Financial Statements.)

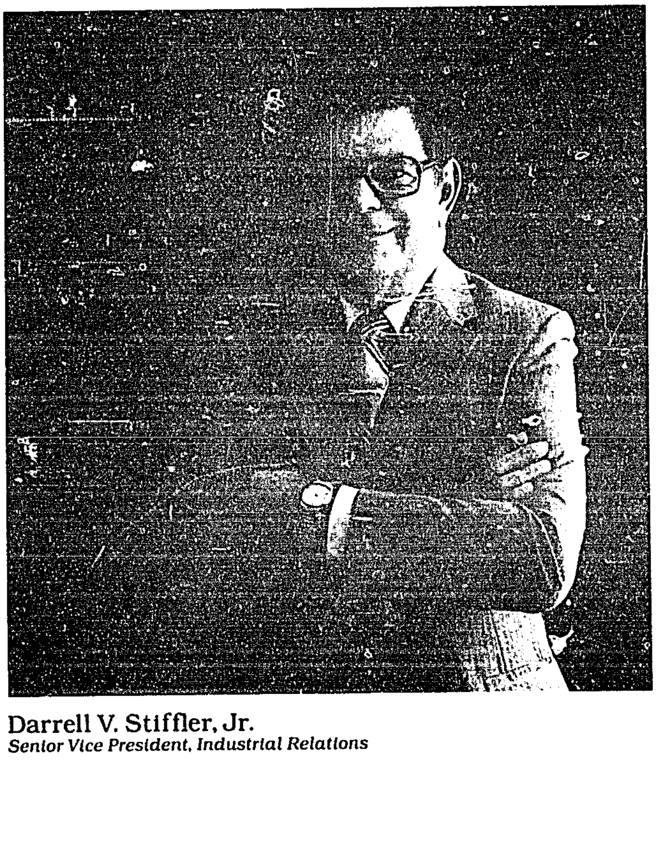
Senior Management

Daniel E. Josephs
Executive Vice President, Chief Operating Officer, Food Stores

Michael Mandelblatt
Executive Vice President, Chief Financial Officer



Henry H. Graham
Senior Vice President, Treasurer



Darrell V. Stiffler, Jr.
Senior Vice President, Industrial Relations

Directors and Officers

DIRECTORS

Robert B. Anderson
Business and Financial Consultant

Joseph L. Castle
Business and Financial Consultant

Philip Devon
Business Consultant

John M. Fox
Former Chairman, SCA Services, Inc.

Roger L. Galassini
President, Chief Operating Officer

Grant C. Gentry
Chairman, Chief Executive Officer

Daniel E. Josephs
President, Food Stores

Jewel S. Lafontant
Senior Partner, Vedder, Price, Kaufman & Kammholz, Attorneys at Law

Michael Mandelblatt
Executive Vice President, Chief Financial Officer

James J. Needham
Business Consultant

Howard M. Packard
Retired Chairman and President, S.C. Johnson & Son, Inc.

Duane Peters
Retired Executive Vice President, H.E. Butt Grocery Company

PANTRY PRIDE, INC.
(Holding Company)
CORPORATE OFFICERS

Grant C. Gentry
Chairman, Chief Executive Officer

Roger L. Galassini
President, Chief Operating Officer

Daniel E. Josephs
Executive Vice President, Chief Operating Officer, Food Stores

Michael Mandelblatt
Executive Vice President, Chief Financial Officer

Darrell V. Stiffler, Jr.
Senior Vice President, Industrial Relations

Henry H. Graham
Senior Vice President, Treasurer

Howard F. Gordon
Vice President, Secretary, General Counsel

Robert L. McGrath
Vice President

Margaret M. Fulton
Assistant Secretary

Michael J. Sawyer
Assistant Secretary, Assistant General Counsel

PANTRY PRIDE ENTERPRISES, INC.
(Operating Subsidiary)
OFFICERS
(Includes all officers of Pantry Pride, Inc. and the following:)

Thomas P. Ballezzi
Vice President, Corporate Development

Alex Cuesta, Jr.
Vice President, Loss Prevention

Daniel E. Josephs
President, Chief Operating Officer, Food Stores

James C. Keylon
Vice President, Human Resources

Marvin H. Kushner
Vice President, Maintenance

Henry L. Morris
Vice President, Store Systems

Judith W. Napier
Vice President, Investor Relations

John Ruffin, Jr.
Vice President, General Merchandise

Karl H. Siemon
Vice President, Real Estate

John G. Stebbins
Vice President, Advertising and Sales

William Steiner
Vice President, Construction

Gary R. Ellis
Controller

David L. Chiras
Assistant Secretary, Assistant General Counsel

Joseph P. Letzelter, Jr.
Assistant Treasurer

REGIONAL OPERATING OFFICERS

Harold F. Rawling
Vice President, General Manager, Sun Supermarkets, Jacksonville Region

Leonard E. Slider
Vice President, General Manager, CUB Stores

Raymond T. Hironimus
Vice President, General Manager, Sun-Pantry Pride, South Florida Division

DEVON STORES, INC.
(Operating Subsidiary)
OFFICERS

Grant C. Gentry
Chairman of the Board, Chief Executive Officer, Director

Roger L. Galassini
Director

Michael Mandelblatt
President, Chief Operating Officer, Director

Robert L. McGrath
Executive Vice President, Finance & Administration, Director

William O. Antley
Executive Vice President, Operations, Director

Howard F. Gordon
Secretary

David L. Chiras
Assistant Secretary

Committees of the Board

EXECUTIVE COMMITTEE	Grant C. Gentry, Chairperson John M. Fox Roger L. Galassini	Michael Mandelblatt James J. Needham Duane Peters
AUDIT COMMITTEE	James J. Needham, Chairperson Robert B. Anderson Joseph L. Castle	John M. Fox Jewel S. Lafontant
COMPENSATION COMMITTEE	Jewel S. Lafontant, Chairperson Robert B. Anderson Joseph L. Castle	James J. Needham Howard M. Packard
FINANCE COMMITTEE	Joseph L. Castle, Chairperson Philip Devon Roger L. Galassini Grant C. Gentry	Jewel S. Lafontant Michael Mandelblatt Howard M. Packard
NOMINATING COMMITTEE	John M. Fox, Chairperson Roger L. Galassini Grant C. Gentry	Jewel S. Lafontant Howard M. Packard Duane Peters

Corporate Data

ANNUAL MEETING	The annual meeting of stockholders will be held Thursday, December 6, 1984 at 11 A.M., local time, at the Holiday Inn, 4900 Powerline Road, Fort Lauderdale, Fla. Stockholders are cordially invited to attend. A notice of the meeting, a proxy statement and proxy form are included with this report to each stockholder of record as of October 19, 1984.
FORM 10-K	A copy of Form 10-K for the fiscal year ended July 28, 1984, which has been filed with the Securities and Exchange Commission, is available to stockholders at no charge upon written request to: Office of the Corporate Secretary, Pantry Pride, Inc., 6500 North Andrews Avenue, Fort Lauderdale, Florida 33309.
COMMON STOCK TRADED	New York Stock Exchange Pacific Stock Exchange
EXECUTIVE OFFICES	6500 North Andrews Ave. Fort Lauderdale, Fla. 33309
AUDITORS	Touche Ross & Co., Miami, Fla.
REGISTRAR & STOCK TRANSFER AGENT	Registrar & Transfer Company 10 Commerce Drive Cranford, N.J. 07016

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PANTRY PRIDE, INC.

6500 North Andrews Ave.
Fort Lauderdale, Fla. 33309